



04

# ANNUAL REPORT



Cosmos is  
**EMPOWERING**  
businesses across  
Australia to maximise  
their potential  
through **INNOVATIVE**  
transaction and  
software solutions.

We are building  
on **20 YEARS**  
experience in  
the banking and  
pharmacy support  
areas to make it  
easier for businesses  
to do business.

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Cosmos achieved **SIGNIFICANT** results in both rationalisation and **GROWTH**, maintaining its market leading position.

Revenue increased, costs reduced and the business has been cash flow **POSITIVE** since December 2003.

# HIGHLIGHTS

## RETAIL TECHNOLOGY

- ▶ Achieved 60% market share in Australian pharmacy POS and dispense solutions
- ▶ Increased annual sales of pharmacy solutions by 23% (\$2.116 million)
- ▶ Formed alliance with Medilinx to supply data for compliance and trend monitoring
- ▶ Introduced innovative new solutions for radio frequency and bar-code identification

## TRANSACTION PROCESSING

- ▶ Achieved 29% increase in revenue per transaction
- ▶ Achieved 17% growth in Australian real estate agencies using the rent card payment service
- ▶ Doubled the number of residential tenants using the rent card payment service

## FINANCIAL

- ▶ Reduced total expenses by 9% (\$2.766 million) compared with prior year
- ▶ Raised \$7.154 million investment funding via convertible note issue to cover outstanding liabilities and provide working capital
- ▶ Achieved operating profit through core business (excluding Surefire Systems Pty Limited which was sold during the year) of \$1.0 million, compared with \$4.4 million loss last year

“

Express Data turned to specialist vendor, Cosmos, rather than the bank, for a radical improvement in the processing of credit card payments.

‘At least we knew we had the money in the bank. But it was hard to reconcile the invoices. Then after a search we found the Cosmos gateway system.’

Cosmos solutions are integrated to Express Data’s customer ordering systems, so updated orders and payment confirmations are downloaded every 15 minutes.

‘The danger used to be that we’d dispatch goods prior to payment. We’ve eliminated that exposure’.

Chris Ryan, National Credit Manager, Express Data

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# BOARD OF DIRECTORS

## **DR HENRY PRESTON**

Non-executive Chairman

**Bachelor of Medicine & Bachelor  
of Surgery**

Dr Preston is an experienced business manager, particularly in the healthcare industry. A specialist medical practitioner in the field of pathology, his background also includes accounting and small business operation in retail and manufacturing. During the 1990s he was Managing Director of Hitech Pathology in Melbourne, the fastest organically growing business of its kind in Australia. Following the sale of his business in 2000, Dr Preston became CEO of the merged Hitech and Melbourne Pathology businesses with a combined staff of 1000 and turnover of approximately \$80 million until his resignation in 2001. Dr Preston has been a director since 2002.

## **MR NIGEL PURVES**

Managing Director

**Bachelor of Finance & Administration;  
Post Graduate Diploma of Financial  
Management; Masters in Business  
Administration**

Mr Purves has over 20 years experience working at a senior executive level within publicly listed companies both in Australia and internationally across broad fields such as property development, media, defence, manufacturing and technology. Mr Purves began his career as a tax partner in a large chartered accountants firm before moving into the public company arena. He has been the Chief Executive and Chief Financial Officer of significant corporations such as Cascade Group Limited, AWA Limited and more recently RealEstate.com Limited. Mr Purves has specialised in re-engineering, expanding and developing corporations on a global basis. Mr Purves is a Fellow of CPA Australia and Company Secretaries and Managers and a Chartered Accountant. Mr Purves has been a director since 2003.

**DR ROBERT TYNAN**

Non-executive Director

**Bachelor of Medicine & Bachelor of Surgery; Masters in Business Administration**

With a background in medicine and business management, Dr Tynan was Managing Director of Cosmos from May 2002 to December 2003. His medical career began at the Royal North Shore Hospital as the Rehabilitation Registrar and was followed by business-focused roles after commencing an MBA. He joined Grace Bros as Merchandise Manager, then Lend Lease in its emerging communications division. As the founding CEO of SITEL New Zealand, he moved to Detroit for SITEL Asia Pacific to complete negotiations and manage delivery of a US\$650 million 5-year outsourcing contract with General Motors. In 2000 Dr Tynan joined Combined Communications Network (CCN) as CEO where he directed a due diligence and prospectus process, leading the company to an over-subscribed listing on the ASX. Dr Tynan has been a director since 2002.

**MR JOHN GARRETT**

Company Secretary

**Bachelor of Law; Accredited Specialist Commercial Litigation**

Mr Garrett has 25 years experience devising strategic approaches to corporate restructuring and insolvency, banking disputes and complex joint venture disputes. Corporate advisory work in public fundraising compliance and exemptions complements his litigation background. As a solicitor of the Supreme Court of New South Wales since 1975, Mr Garrett began in a general litigation and commercial practice before partnering with colleagues to form Garrett Walmsley Madgwick in 1979. When the firm merged with McCabe Terrill Lawyers, Mr Garrett continued to specialise in corporate litigation, restructuring and fundraising before joining Cosmos in 2003.



Cosmos Limited has made exceptional gains during the year with the integration of the Amfac business, purchased from Faulding Healthcare in 2003, into the retail technology business channel while the whole Company structure was changed from individual divisions representing the Company's business into a functional structure. This transformation has represented the change of the Company from an intellectual technology driven

company into a sales and market driven company being proactive and responsive to our customers. The Company completed a capital raising of \$7.154 million during the year that was fully supported by existing shareholders. Continued shareholder support has enabled Cosmos to meet most of its outstanding obligations and retain some working capital to undertake its strategy.

## CHAIRMAN'S REPORT

The sale of Surefire Systems has focused the Company upon its core businesses of Electronic Payments and Retail Technology, and the directors believe this will result in a stronger performance for the new financial year. With the sale of Surefire Systems, a strong cultural change and market driven focus, the Company has enabled significant improvement in operational profit with the Company's first operating profit from core activities of \$1 million from a loss of \$4.4 million in the previous year.

The Retail Technology division of Cosmos has seen some significant joint ventures formed where Cosmos can leverage its

large pharmacy footprint across Australia and utilise its partners' strengths. The recognition of the Company's market strength has been reflected in Cosmos' participation as one of only two organisations in the PBS Online program. This section of the Company will experience a strong steady growth for the new financial year.

The Transaction Processing division has grown steadily during the year despite minimal sales effort. The new financial year has this division engaging a substantial sales force to drive significant growth, with existing and new products in the market. The outlook for the new

financial year is one of strong growth and a realisation of economies of scale with the integration of the Company's operating platforms. On behalf of the Board, I thank all Cosmos staff and management for their continued efforts during the past year, particularly their support and involvement in the Company's cultural change.



Henry Preston  
Chairman

“

Cosmos is strongly positioned to  
**MAXIMISE** shareholder **VALUE** through  
strategies designed to increase market  
share and rationalise operating costs.

”





Cosmos is well-established as market leader in the provision of essential software to pharmacies (Retail Technology division) and as an essential component to certain industries in electronic bill payment and presentment (Transaction Processing division). The integration of these two company drivers will enable Cosmos to progress for the benefit of all stakeholders.

Cosmos has made significant and rapid progress through its re-establishment period enabling the cementing of a solid business foundation to lead the company into the new era of electronic health and banking.

#### **RE-ESTABLISHMENT PROCESS**

The Company has moved from an intellectual technology driven company to a sales and marketing driven company supported by intellectual property. As part of the significant structural and cultural change, Cosmos reduced its non-essential staffing by 38%, rationalised company premises, and sold a non-profitable division in the first half of the financial year. The operational structure was changed from a high cost divisional structure to a flat functional structure to achieve a reduction in overheads and a stronger focus on sales and marketing.

With fixed costs having been minimised during the year, Cosmos has been able to focus on key revenue drivers while an overhead reduction program continues

## MANAGING DIRECTOR'S **REPORT**



throughout the Company. As an integral part of this process the Company's customer care function and its ability to support increased revenue streams and customers has been targeted to provide a significant improvement in customer satisfaction compared with previous years.

#### STAFF

A pivotal element in the Company's success has been the skill and quality of dedicated people and their role in achieving the Company's key performance goals. The infusion of new members in addition to the already high skill base that exists throughout Cosmos, has culminated in significant corporate capabilities that will enable the Company to move successfully forward.

#### GROWTH OPPORTUNITIES

Cosmos has the opportunity to maximise its participation in current areas of operation, pharmacy software and electronic banking, with both sectors presenting substantial growth opportunities. The pharmacy sector is one part of the Australian health market in which the Federal Government is encouraging private sector involvement, and in which Cosmos will profitably participate. Cosmos has the largest pharmacy product footprint in Australia which places the Company in an extremely advantageous position. The Company's other sector of operations in electronic banking represents another large growth market. With these strengths and opportunities Cosmos is in an unparalleled growth position.

In summary, Cosmos has improved significantly on last year's performance. With our strategies and opportunities for expansion, combined with our more effective operating structure, I see every reason for this improvement to continue at an even stronger rate.



Nigel Purves  
Managing Director

“

A challenging yet **REWARDING** period of re-establishment has provided a **SOLID** platform for **GROWTH** and expansion, leading the company into a new era of electronic health and banking.

”

# RETAIL TECHNOLOGY REPORT

# PHARMACY

The Australian pharmacy sector is in a constant state of change, presenting continual development and expansion opportunities for Cosmos. Ongoing adjustments in legislation, technology and customer requirements dictate software and hardware solutions that are both flexible and innovative. Solutions that are imperative for pharmacies in adopting these changes and operating more efficiently are continuing to be successfully provided by Cosmos.

Through the united brand power of Amfac and Pharmasol, Cosmos continues to experience steady growth as the market leader in pharmacy point of sale (POS) and dispensing applications. Cosmos solutions are currently being used in 60% of pharmacies across Australia.

We are confident that this market share will continue to grow as we focus more closely on identifying customer needs, improving customer service and delivering technologically advanced solutions.

Our customers' requirements determine the direction and development of Cosmos software. Strong account management and ongoing research through focus groups and on-line surveys ensure regular communication, enabling us to identify and prioritise requirements. Industry regulations also strongly influence software progression and we continue to grow our corporate relationships in the medical marketplace with entities such as the Pharmacy Guild and the Health Insurance Commission.

Innovations such as integrated windows solutions (dispense and point of sale in a single software package), integrated EFTPOS, radio frequency solutions and supply chain electronic ordering have all demonstrated our ability to effectively respond to and implement changes in technology, legislation and customer requirements.

60% market share of pharmacies across Australia demonstrates the innovation and **FLEXIBILITY** of Cosmos **SOLUTIONS**, cementing our market **LEADERSHIP**.

#### PHARMACY INNOVATIONS

##### Bar-code Identification of Therapeutic Drugs for Dispensing

This bar-code scanning product was developed in direct response to regulatory changes by the Pharmacy Board of Victoria which requires Victorian pharmacies to scan drugs for dispensing to reduce errors during drug selection. With accurate dispensing also reducing compliance time for reporting on dispense errors, drug scanning is beneficial on a national basis.

##### Radio Frequency Database Solutions: PharmaScan and LiveStock

These products have been purpose-designed to address and exceed customer requirements to better manage their businesses through technology. They facilitate effective management and operation by allowing pharmacies to change prices from the shop floor, easily access real-time stock level data without creating reports, generate and edit orders, and perform rolling stocktakes.



##### Integrated EFTPOS

In response to customer requests for faster transaction times at the point of sale for EFTPOS sales, we formed a partnership with Ingenico International (Pacific) to integrate EFTPOS into our point of sale system. In addition to reducing transaction time, this also reduces errors and eliminates the re-keying of data on a stand-alone system.

By **VALUE-ADDING**  
numerous **SERVICES**  
around the transaction  
itself, we increased  
our revenue per  
transaction by 29%.

## TRANSACTION PROCESSING REPORT **CORPORATE**

In a year of consolidation and continued growth, Cosmos increased revenues per transaction by 29% as well as market share. Our most significant market share increase occurred in New South Wales councils, with new clients including Wollongong, Pittwater and Fairfield City Councils.

New products have been developed and new initiatives undertaken in collaboration with Australian banks to provide new services to niche markets, including multi-level marketing. We also increased our number of linkages to the various financial institutions in Australia and New Zealand to 46.

Demand continued to grow for all Cosmos services, such as business-branded internet or telephone services, EBPP (Electronic Bill Presentment and Payment), direct debit, New Zealand dollars processing and customised accounts receivable call centre services.

The Reserve Bank of Australia's ('RBA') authorisation of credit card surcharging in early 2003 represented new market opportunities for Cosmos. Particularly relevant to industries such as local government, Cosmos was first-to-market for remote transactions with the internet and telephone services provided to Waverley Council in July 2003. Additional council and industry cooperatives have subsequently adopted such services with up to 10% of their customers now paying by credit card.

On 31 October 2003 the RBA ordered a reduction on credit card interchange fees between Australian banks making payment collection by credit card cheaper for all businesses. As the preferred and often cheapest payment collection method available, the credit card market and resulting opportunities for Cosmos continue to grow.

Strategies are in place to market further services around transaction processing and to maximise opportunities in key markets. Impending compliance requirements will also open new market opportunities in this division.





# TRANSACTION PROCESSING REPORT

# REAL ESTATE

By year end the **COSMOS RENT CARD** facilitated rent payments for more than 72,000 tenants in **AUSTRALIA** through most of the major residential real estate franchise groups.



Despite challenging market conditions with high residential property sales the

Cosmos rent card payment service has grown steadily. We have exclusive agreements with most of the major Australian residential real estate franchise groups, and the number of agencies using the service increased

17%. The number of tenants grew by 49% and total revenue increased 17%.

The market's continuing acceptance of the rent card and its ability to respond consistently to both the agents' and tenants' needs has enabled Cosmos to develop additional products for this business channel to cement the Company's market leadership in this area.

As a consequence of the Company's re-establishment, new strategies have been developed to increase our market share in both the residential real estate agent sector and residential real estate tenant sector. The large number of people renting in Australia presents a major growth opportunity.

As part of this overall strategy, plans have been implemented to establish a large and effective sales team throughout Australia. This will enable increased and significant market penetration in the real estate sector.

Our targeted increased market share will provide a platform onto which we plan to launch new products and services to both agents and tenants. With some already launched, these new offerings will further promote our growth objectives.



“

Our strategy for the current financial year involves a well controlled **GROWTH** program in both of the Company's operational divisions of Transaction Processing and Retail Technology with the **OPPORTUNITY** for **INTEGRATION** between the two.

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## OUR FUTURE

The challenge for Cosmos is to maximise this integration to achieve our objectives within the framework the Government presents to the health market. In the electronic bill presentment and payment area Cosmos faces increased competition. However, our well-established electronic

payments base within real estate and the corporate sector, together with the barriers of entry to this business and our pharmacy business, will ensure our continued strong positioning and growth in both sectors of our business.





## **COSMOS LIMITED**

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## **SHARE REGISTRY**

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# FINANCIAL STATEMENTS



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## COMPANY PARTICULARS

### DIRECTORS

Dr Henry Preston  
Mr Nigel Purves  
Dr Robert Tynan

### COMPANY SECRETARY

Mr John Garrett

### PRINCIPAL REGISTERED OFFICE

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Sydney NSW 2000

### SOLICITORS

**Watson Mangioni**  
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### BANKERS

**National Australia Bank**  
338 Pitt Street  
Sydney NSW 2000

### SHARE REGISTRY

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### Contact

Shareholders with questions regarding their  
shareholding should contact the Share Registry on:

Within Australia 1300 850 505  
Outside Australia +61 3 9415 4000

### Change of Address

Shareholders who have changed address should advise  
the Share Registry in writing at the address above.

### STOCK EXCHANGE LISTING & SHARE PRICE

Cosmos' issued ordinary shares are listed on the  
Australian Stock Exchange.

Cosmos' share price is quoted daily in national newspapers as well  
as on a number of information services and websites including [asx.com.au](http://asx.com.au). The price can also be obtained by phoning MarketCall on  
1902 941 520, quoting code 6102. This call attracts a charge from  
your telephone service provider.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 June 2004

The directors submit the following report together with the financial report of Cosmos Limited (the Company) and the consolidated financial report of the consolidated entity, being the Company and its controlled entities (the Consolidated entity), for the financial year ended 30 June 2004 and the auditors report thereon.

## DIRECTORS

### Dr Henry Preston

Non-executive Chairman

Qualifications

Bachelor of Medicine & Bachelor of Surgery

Experience

Dr Preston is an experienced business manager, particularly in the healthcare industry. A specialist medical practitioner in the field of pathology, his background also includes accounting and small business operation in retail and manufacturing. During the 1990s he was Managing Director of Hitech Pathology in Melbourne, the fastest organically growing business of its kind in Australia. Following the sale of his business in 2000, Dr Preston became CEO of the merged Hitech and Melbourne Pathology businesses with a combined staff of 1000 and turnover of approximately \$80 million until his resignation in 2001. Dr Preston has been a director since 2002.

Special Responsibilities

Chairman, Audit Committee, Nomination Committee, Remuneration Committee

Age

50

### Mr Nigel Purves

Managing Director

Qualifications

Bachelor of Finance & Administration; Post Graduate Diploma of Financial Management; Masters in Business Administration

Experience

Mr Purves has over 20 years experience working at a senior executive level within publicly listed companies both in Australia and internationally across broad fields such as property development, media, defence, manufacturing and technology. Mr Purves began his career as a tax partner in a large chartered accountants firm before moving into the public company arena. He has been the Chief Executive and Chief Financial Officer of significant corporations such as Cascade Group Limited, AWA Limited and more recently RealEstate.com Limited. Mr Purves has specialised in re-engineering, expanding and developing large corporations on a global basis. Mr Purves is a Fellow of CPA Australia, and Company Secretaries and Managers, and a Chartered Accountant. Mr Purves has been a director since 2003.

Special Responsibilities

Managing Director, Audit Committee, Nomination Committee, Remuneration Committee

Age

50

### Dr Robert Tynan

Non-executive Director

Qualifications

Bachelor of Medicine & Bachelor of Surgery; Masters in Business Administration

Experience

With a background in medicine and business management, Dr Tynan was Managing Director of Cosmos from 28 May 2002 to 12 December 2003. His medical career began at the Royal North Shore Hospital as the Rehabilitation Registrar and was followed by business-focused roles after commencing an MBA. He joined Grace Bros as Merchandise Manager, then Lend Lease in its emerging communications division. As the founding CEO of SITEL New Zealand, he moved to Detroit for SITEL Asia Pacific to complete negotiations and manage delivery of a US\$650 million 5-year outsourcing contract with General Motors. In 2000 Dr Tynan joined Combined Communications Network (CCN) as CEO where he directed a due diligence and prospectus process, leading the company to an over-subscribed listing on the ASX. Dr Tynan has been a director since 2002.

Special Responsibilities

Audit Committee, Nomination Committee, Remuneration Committee

Age

52

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 June 2004

## DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of the Audit, Remuneration, and Nomination Committees, and the number of meetings attended by each director are:

	DIRECTORS' MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	Eligible To Attend	Attended	Eligible To Attend	Attended	Eligible To Attend	Attended	Eligible To Attend	Attended
H Preston	5	5	1	1	-	-	-	-
R Tynan	5	5	1	1	-	-	-	-
N Purves	5	5	1	1	-	-	-	-



# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

## BOARD OF DIRECTORS

### Role of the board

The Board of Directors ("the Board") primary role is the protection and enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing goals for management and monitoring the achievement of these goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

### Board processes

To assist in the execution of its responsibilities, the Board has established an Audit Committee, Nomination Committee and Remuneration Committee. The Board has also established a framework for the management of the consolidated entity including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds 5 scheduled meetings each year, plus strategy meetings and any extraordinary meetings at other such times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, corporate governance and compliance. Submissions are circulated in advance. Executives are highly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

### Director education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

### Independent professional advice and access to company information

Each director has the right of access to all relevant consolidated entity information and to the consolidated

entity's executives and, subject to prior consultation with the Chairman, may seek independent advice from a suitably qualified advisor at the consolidated entity's expense. The director must obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of advice received by the director is made available to all other members of the Board.

### Board composition

The names of the directors of the consolidated entity in office at the date of this report are set out in the Directors' report detailed on pages 1 – 2 of this annual report.

Composition of the board is determined using the following principles:

- ▶ A minimum number of 3 directors
- ▶ A majority of independent non-executive directors
- ▶ A majority of directors having extensive knowledge of the consolidated entity's industries
- ▶ One third of the board is subject to re-election every year on a rotational basis with the exception of the Managing Director

An independent director is a director who is not a member of management (a non-executive director) and:

- ▶ who holds less than 5% of the voting shares of the company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder with more than 5% of the voting shares of the company
- ▶ has not within the last three years been employed in an executive capacity by the consolidated entity or been a director after ceasing to hold any such employment
- ▶ has not within the last three years been a principal or employee of a professional advisor or a consultant to the consolidated entity
- ▶ has no contractual relationship with the consolidated entity other than as a director of the company
- ▶ is free from any interest or business and any other relationship which could, or could reasonably be perceived to, interfere with the directors ability to act in the best interests of the company

The company currently does not have a majority of independent non-executive directors as described above and is currently undertaking a search for appropriate director(s) to comply with the principle outlined above.

## NOMINATION COMMITTEE

The Nomination Committee oversees the appointment and induction process for directors and committee members. It reviews annually the composition of the Board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. When a vacancy exists or there is a need for particular skills, the Nomination

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

Committee in consultation with the Board, determines the selection criteria based on the skills deemed necessary. The Nomination Committee is also responsible for the selection appointment and succession planning process of the Managing Director.

The Nomination Committee is currently reviewing its evaluation processes to establish performance indicators that are both measurable and quantifiable and will report the processes for the evaluations to shareholders in the next annual report.

The Nomination Committee comprised the following members during the year:

Dr Henry Preston (Chairman)	Non-executive
Dr Robert Tynan	Non-executive
Mr Nigel Purves	Executive

The Nomination Committee meets annually unless otherwise required. The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment, including expectations for attendance and preparation for all Board meetings, minimum hourly commitment, appointments to other boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

The Nomination Committee will, commencing financial year 2005, conduct an annual review of the performance of the Managing Director and senior executives reporting directly to him with the results being discussed at a board meeting.

The performance of all directors is reviewed by the Chairman each year. Directors whose performance is unsatisfactory are asked to retire. The Nomination Committee did not meet during the year.

## REMUNERATION REPORT

### Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. It is also responsible for share option schemes, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. The Remuneration Committee did not meet during the year. The members of the Remuneration Committee during the year were:

Dr Henry Preston (Chairman)	Non-executive
Dr Robert Tynan	Non-executive
Mr Nigel Purves	Executive

### Remuneration policies

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the consolidated entity is as follows:

- ▶ The remuneration structure for executive officers, including executive directors, seeks to emphasise a results-orientation through various reward schemes based on measurable performance. For example the incorporation of incentive payments for achieving sales targets.
- ▶ Objectives of the reward schemes are to reinforce the short and long term goals of the consolidated entity and provide a common interest between management and shareholders.
- ▶ The emoluments of each director and each of the executive officers receiving the highest emoluments are shown below.

Remuneration levels are set competitively to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates and to affect the broader outcome of achieving a net profit attributable to members of the parent entity. An analysis of the past three years remuneration and performance data revealed that approximately 80% of participants in the bonus and options plans achieved their performance targets. The remuneration structures takes into account:

- ▶ Overall level of remuneration for each director and executive;
- ▶ The executives' ability to control the relevant segment(s)' performance; and
- ▶ The amount of incentives within each executive's remuneration

Executive directors and senior executives may receive bonuses based on the achievements of specific performance hurdles. The performance hurdles are a combination of the consolidated entity's and each relevant segment's result meeting budgeted targets consistent with the growth and profit objectives agreed with the Board. There is no separate profit-share plan. Options are issued under the Employee Share Option Plan and it provides for employees to receive options over ordinary shares for no consideration. The ability to exercise the options is conditional on the Consolidated entity achieving an improvement of 30% over the weighted average share prices in the 14 business days prior to issue.

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

Discretion was exercised by the Board in relation to the payment of bonuses during the financial year.

Non-executive directors do not receive any performance related remuneration. The board considers that the above performance-related remuneration structure is generating the desired outcome. The evidence for this is firstly, the

very strong growth in operating profits for the second half of the financial year, and secondly, the performance-linked elements of the structure appears to be appropriate because most but not all of the executives achieve a level of performance which qualifies them for bonuses and options.

## Directors and senior executives remuneration

Details of the nature and amount of each major element of the remuneration of each director of the company and each of the five named officers of the company and the consolidated entity receiving the highest remuneration are:

	Base Remuneration \$	Bonuses \$	Super Contributions \$	Non-cash Benefits Other \$	Non-cash Benefits Options \$	Termination Payments \$	Total \$
<b>DIRECTORS</b>							
H Preston	60,000	-	-	-	-	-	60,000
R Tynan	275,000	-	-	-	54,667	-	329,667
N Purves	311,920	100,000	24,450	-	-	-	436,370
<b>EXECUTIVE OFFICERS (EXCLUDING DIRECTORS)</b>							
<b>The Company: Current</b>							
J Garrett	260,000	100,000	24,975	-	-	-	384,975
C Rollinson	134,490	15,000	11,510	-	-	-	161,000
M Johnston	67,845	5,000	6,106	-	-	-	78,951
B Headford	48,719	5,000	4,385	-	-	-	58,104
<b>The Company: Former</b>							
M Kesterton	196,117	38,454	10,662	-	-	-	245,233
M Lewis	168,863	-	11,746	-	-	14,671	195,280
<b>Consolidated Entity: Current</b>							
J Garrett	260,000	100,000	24,975	-	-	-	384,975
K Scott	158,819	8,000	9,756	-	-	-	176,575
C Rollinson	134,490	15,000	11,510	-	-	-	161,000
M Johnston	67,845	5,000	6,106	-	-	-	78,951
B Headford	48,719	5,000	4,384	-	-	-	58,103
<b>Consolidated Entity: Former</b>							
J Collins	192,078	-	13,500	-	-	54,326	259,904
M Kesterton	196,117	38,454	10,662	-	-	-	245,233

There were no options on shares granted to Directors or Senior Executives during the current financial year.

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

## Audit Committee

The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity. The Audit Committee currently comprises all directors due to small number of directors of the company. A charter for the Committee is currently being finalised and will be reported to shareholders in the next annual report.

The members of the Audit Committee during the year were:

Dr Henry Preston (Chairman)	Non-executive
Dr Robert Tynan	Non-executive
Mr Nigel Purves	Executive

The external auditors and the Chief Financial Officer are invited to Audit Committee meetings at the discretion of the Committee. The Audit Committee met once during the year. The Managing Director and the Chief Financial Officer declared in writing to the board that the company's financial reports for the year ended 30 June 2004 present a true and fair view, in all material respects, of the consolidated entity's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

The Audit Committee also conducts an annual review of its processes and current performance to ensure it has carried out its functions in an effective manner.

The responsibilities of the Audit Committee include reporting to the board on:

- ▶ reviewing the annual, half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance within Australian Accounting Standards and generally accepted accounting principles and assessing whether the financial information is adequate for shareholder needs.
- ▶ monitoring corporate risk assessment.
- ▶ reviewing consolidated entity's policies and procedures for convergence with International Financial Reporting Standards for reporting period beginning on 1 July 2005.
- ▶ assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence.
- ▶ the external audit engagement partner was last rotated in 2002.
- ▶ assessing the adequacy of the internal control framework and the consolidated entity's code of ethical standards.
- ▶ monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.

- ▶ addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- ▶ review the half-year report prior to lodgment with the ASX, and any significant adjustments required as a result of the auditor's findings.
- ▶ review the draft financial report and recommend Board approval of the financial report.
- ▶ As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

## RISK MANAGEMENT

### Oversight of risk management system

The board oversees the establishment, implementation and annual review of the consolidated entity's risk management system. Management has established the risk management system for assessing, monitoring, and managing operational, financial reporting and compliance risks for the consolidated entity. The operational and other compliance risk management have also been assessed and found to be operating effectively. The Managing Director and Chief Financial Officer have declared, in writing to the board that the financial risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively.

### Risk profile

Major business risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements, occupational health and safety, property, and the purchase, development and use of information systems.

### Risk management compliance and control

The consolidated entity strives to ensure that its products and services are of the highest standard. Towards this aim it is undertaking a program to review the implementation of a quality control methodology (AS ISO 9002) for each of its business units.

Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue within employees and senior management.

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has instigated the following internal control framework:



# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

- ▶ Operational unit controls – Operating units confirm compliance with financial controls and procedures including information systems controls detailed in both procedure manuals and work instructions.
- ▶ Financial reporting – monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.
- ▶ Continuous disclosure – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Group's securities and notify them to the ASX and post them on the Group's web site. The Managing Director, Chief Financial Officer and Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board.
- ▶ Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are acquired or divested.

Comprehensive practices are established such that:

- ▶ Capital expenditure and revenue commitments above a certain size require prior Board or Management approval.
- ▶ Financial exposures are controlled. Further details of the Group's policies relating to interest rate management and credit risk management are included in Note 20 to the financial statements.
- ▶ Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- ▶ Business transactions are properly authorised and executed.

## Environmental regulations

The consolidated entity's operations are not subject to significant environmental regulation under either Commonwealth or State legislation. The Board believes the consolidated entity has adequate systems in place to manage its environmental requirements and is not aware of any breach of those environmental requirements as they apply.

## ETHICAL STANDARDS

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Over the coming year the directors are committed to the development and promotion of an ethical standards manual and policies and procedures to ensure compliance and regular communication of updates.

## Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company or any business undertaken by a subsidiary of the company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

## Trading in general company securities by directors and employees

Directors and senior management may acquire shares in the Group, but are prohibited from dealing in Group shares or exercising options:

- ▶ Except between three and 30 days after either the release of the Group's half-year and annual results to the Australian Stock Exchange ('ASX'), the annual general meeting or any major announcement.
- ▶ Whilst in possession of price sensitive information.

Directors must obtain the approval of the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Group, and it is subject to Board veto. Directors must advise the ASX of any transactions conducted by them in shares.

## ROLE OF SHAREHOLDERS

The Board informs shareholders of all major developments affecting the consolidated entity's state of affairs on a continuous basis which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the company's website and issuing media releases.

In summary the continuous disclosure regime operates as follows:

- ▶ the Managing Director, Chief Financial Officer and Company Secretary are responsible for interpreting the consolidated entity's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Any matters are advised to the ASX on the day they are discovered.
- ▶ the annual report is distributed to all shareholders, and includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- ▶ the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

- ▶ proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.
- ▶ all announcements made to the market, and related information are placed on the company's website after they are released to the ASX.
- ▶ The external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

All documents that are released publicly are made available on the consolidated entity's website at [www.cosmos.com.au](http://www.cosmos.com.au).

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies are available to any shareholder who requests it.

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were:

- ▶ Operating a retail technology business providing point-of-sale (POS), and pharmaceutical dispensing computer software, computer hardware and support services to the pharmacy industry.
- ▶ Operating a transaction processing business providing electronic bill payment, funds transfer and processing services.

## REVIEW OF OPERATIONS

### Results of operations

The consolidated loss after income tax amounted to \$8.5 million (2003: 8.2 million). It should be noted that the restructuring costs and one-off expenses of \$3 million contributed to that loss.

The 2004 annual financial results show a vastly improved operating performance after the full impact of the major restructuring that took place during the year was realised.

Revenues were \$17.9 million and this included an amount of \$0.9 million from Surefire Systems Pty Limited ("Surefire Systems"), which was sold in September 2003.

In comparison to the previous year, excluding Surefire Systems revenue, the consolidated entity's revenue increased significantly from \$15.2 million in 2003 to \$17 million, an increase of 12%. Much of this increase has resulted from the consolidated entity's drive to become a sales focused organisation in response to customers' requirements.

The remaining core businesses after the sale of the Surefire Systems business, of Transaction Processing and Retail Technology produced an operational profit of \$1 million which is a significant turnaround when compared to the \$4.4 million operational loss in 2003.

### Significant changes in the state of affairs

- On 10 July 2003 the Company issued 6 million fully paid ordinary shares at 2.5 cents being consideration for interest payable for preference shares to TDH No. 2 Pty Limited for the 6 month period to 10 July 2003.
- On 29 September 2003 the Company announced finalisation of the second stage convertible note issue of \$6.3 million, to discharge outstanding liabilities to the Australian Taxation Office ("ATO") and provide working capital to the Company.
- On 2 October 2003 the Company announced the sale of the Surefire Systems business for a purchase price of \$1.2 million.
- On 28 November 2003 the Company announced the issue of 37.5 million ordinary shares converting preference shares issued in Pharmasol Pty Limited to TDH No. 2 Pty Limited. The shares were issued on 31 January 2004.
- On 6 April 2004 the Company announced the successful completion of its first offshore licence of its payments processing infrastructure.
- On 31 May 2004 the Company announced it had entered into a partnership with Medilinx to market data on dispense pharmaceuticals and over the counter products.
- On 1 June 2004 the Company announced a capital raising of \$3.5 million via a share purchase plan and ordinary share placement (refer events subsequent to reporting date).

### DIVIDENDS

No dividends have been paid or declared by the Company to members during the current or prior financial year.

### EVENTS SUBSEQUENT TO REPORTING DATE

On the 6th July 2004 the Company successfully raised \$5,352,407 from a placement to professional investors and share purchase plan. The capital raising will provide working capital and eliminate outstanding statutory debt liabilities.

On the 26th July 2004 the Company agreed to form a joint venture with X/procure Software (SA) Pty Limited, the major pharmacy supplier chain management provider in South Africa, to expand its pharmacy e-procurement exchange offering. By joining forces, X/procure and Cosmos will bring to the pharmacy market throughout Australia what they believe to be the best pharmacy e-procurement exchange system operating in the world today.

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 June 2004

## International Financial Reporting Standards

For reporting periods commencing on or after 1 January 2005, the consolidated entity is required to prepare comparative financial statements reflecting the use of the International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

The consolidated entity has established a working group to manage the transition to IFRS. The working group has undertaken an initial assessment of the required changes and has already identified a number of changes to internal controls and information systems that will be required to capture the necessary financial information. There will also be staff training required. The working group, chaired by the Chief Financial Officer, is currently preparing a project specification for a detailed assessment of the requirement.

The working group, reporting to the Audit Committee, expects the consolidated entity to be able to generate the required disclosures of AASB1 as it transitions to Australian IFRS reporting during the course of the 2004/05 financial year.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## LIKELY DEVELOPMENTS

The consolidated entity's re-engineering has enabled the Company to focus upon a clear path of controlled growth in its two areas of business: electronic bill payment and presentment, and the provision of dispense and point-of-sale systems to pharmacies. The Company will continue to progress the maximisation of its current assets, which has seen the development of several joint ventures. These joint ventures will enable the consolidated entity to take to market leading ledge products thereby increasing the consolidated entity's existing profitable revenue streams.

Both of the markets the Company operates within, health, and electronic bill payment and presentment are large growth markets with the Federal Government driving health initiatives that will only benefit the consolidated entity with its participation.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

## DIRECTORS' INDEMNIFICATION & INSURANCE

The Company, in accordance with Article 23 of its Constitution, has agreed to indemnify the current and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. This agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### Insurance premiums


The Consolidated entity has not paid any insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts for current or former directors and officers, including executive officers of the Consolidated entity and directors, executive officers and secretaries of its controlled entities.

## ROUNDING OF AMOUNTS

The Consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with the resolution of the directors

Dated at Sydney on the 30th day of September 2004.



**Henry Preston**  
Chairman

# STATEMENT OF FINANCIAL PERFORMANCE

COSMOS LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 June 2004

	Note	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from sale of goods	2	1,723	5,302	-	-
Revenue from rendering of services	2	15,526	14,772	-	-
Other revenue from ordinary activities	2	677	943	50	3
<b>Total revenues from ordinary activities</b>		<b>17,926</b>	<b>21,017</b>	<b>50</b>	<b>3</b>
Materials and consumables used		(2,443)	(5,788)	(345)	-
Employee expenses		(15,613)	(13,865)	(6,423)	(2,001)
Occupancy expenses		(1,899)	(2,172)	(396)	(168)
Research and development costs	3	(160)	(408)	-	-
Marketing expenses		(280)	(234)	(85)	-
Depreciation and amortisation expense	3	(1,589)	(1,968)	(51)	(41)
Borrowing costs	3	(1,482)	(562)	(1,084)	(169)
Write off assets and investments	3	-	(1,645)	(1,481)	(5,268)
Carrying value of Surefire net assets sold		(744)	-	-	-
Other expenses from ordinary activities		(2,247)	(2,581)	(582)	(258)
<b>Loss from ordinary activities before related income tax expense</b>		<b>(8,531)</b>	<b>(8,206)</b>	<b>(10,397)</b>	<b>(7,902)</b>
Income tax expense relating to ordinary activities		-	-	-	-
<b>Net loss from ordinary activities after related income tax expense</b>		<b>(8,531)</b>	<b>(8,206)</b>	<b>(10,397)</b>	<b>(7,902)</b>
Net loss attributable to outside equity interests		-	-	-	-
<b>Net loss attributable to members of the parent entity</b>		<b>(8,531)</b>	<b>(8,206)</b>	<b>(10,397)</b>	<b>(7,902)</b>
		\$	\$		
Basic loss per share	28	(0.030)	(0.034)		
Diluted loss per share	28	(0.030)	(0.034)		

There are no non-owner related transaction charges in equity for the years ended 30 June 2004 and 2003.

*The statements of financial performance should be read in conjunction with the notes to the financial statements set out on pages 13 to 34.*

# STATEMENT OF FINANCIAL POSITION

COSMOS LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 June 2004

		CONSOLIDATED		THE COMPANY	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>CURRENT ASSETS</b>					
Cash assets	6	1,768	24	343	9
Receivables	8	2,289	1,763	-	-
Inventories	9	134	466	-	-
Other	10	414	576	174	332
<b>Total current assets</b>		<b>4,605</b>	<b>2,829</b>	<b>517</b>	<b>341</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	8	-	-	-	-
Investments	11	-	-	-	-
Property, plant and equipment	13	780	1,174	115	55
Intangible assets	14	4,793	6,805	-	-
Other		141	-	53	-
<b>Total non-current assets</b>		<b>5,714</b>	<b>7,979</b>	<b>168</b>	<b>55</b>
<b>Total assets</b>		<b>10,319</b>	<b>10,808</b>	<b>685</b>	<b>396</b>
<b>CURRENT LIABILITIES</b>					
Payables	15	13,106	11,797	2,641	1,291
Interest-bearing liabilities	16	9,706	4,024	7,759	2,514
Provisions	17	518	594	204	81
<b>Total current liabilities</b>		<b>23,330</b>	<b>16,415</b>	<b>10,604</b>	<b>3,886</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	16	429	1,083	-	-
Provisions	17	98	49	16	-
<b>Total non-current liabilities</b>		<b>527</b>	<b>1,132</b>	<b>16</b>	<b>-</b>
<b>Total liabilities</b>		<b>23,857</b>	<b>17,547</b>	<b>10,620</b>	<b>3,886</b>
<b>Net (liabilities)/assets</b>		<b>(13,538)</b>	<b>(6,739)</b>	<b>(9,935)</b>	<b>(3,490)</b>
<b>EQUITY</b>					
Contributed equity	18	65,267	61,315	65,267	61,315
Accumulated losses	19	(78,805)	(70,274)	(75,202)	(64,805)
<b>Total parent entity interest</b>		<b>(13,538)</b>	<b>(8,959)</b>	<b>(9,935)</b>	<b>(3,490)</b>
Outside equity interest	18	-	2,220	-	-
<b>Total equity</b>		<b>(13,538)</b>	<b>(6,739)</b>	<b>(9,935)</b>	<b>(3,490)</b>

The statements of financial position should be read in conjunction with the notes to the financial statements set out on pages 13 to 34.



# STATEMENT OF CASH FLOWS

COSMOS LIMITED AND ITS CONTROLLED ENTITIES FOR THE YEAR ENDED 30 June 2004

		CONSOLIDATED		THE COMPANY	
		2004	2003	2004	2003
	Note	\$'000	\$'000	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		14,645	20,570	50	-
Payments to suppliers and employees		(16,302)	(21,911)	(5,387)	(323)
Interest received		12	16	-	3
Interest and other cost of finance paid		(1,036)	(532)	(1,084)	(169)
<b>Net cash used in operating activities</b>	<b>7</b>	<b>(2,681)</b>	<b>(1,857)</b>	<b>(6,421)</b>	<b>(489)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for property, plant and equipment		(461)	(166)	(111)	(34)
Proceeds for sales of Surefire		578	-	-	-
<b>Net cash provided/(used) in investing activities</b>		<b>117</b>	<b>(166)</b>	<b>(111)</b>	<b>(34)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issues of securities (shares, options, etc)		-	-	2,190	-
Proceeds from borrowings		6,285	1,805	6,285	1,805
Repayment of borrowings		(1,909)	(1,144)	(1,609)	(1,070)
Issue of loan		-	(215)	-	(215)
Finance lease payments		(68)	(176)	-	-
<b>Net cash provided by financing activities</b>		<b>4,308</b>	<b>270</b>	<b>6,866</b>	<b>520</b>
<b>Net increase / (decrease) in cash held</b>		<b>1,744</b>	<b>(1,753)</b>	<b>334</b>	<b>(3)</b>
<b>Cash at the beginning of the financial year</b>		<b>24</b>	<b>1,777</b>	<b>9</b>	<b>12</b>
<b>Cash at the end of the financial year</b>	<b>6</b>	<b>1,768</b>	<b>24</b>	<b>343</b>	<b>9</b>

The statements of cash flows should be read in conjunction with the notes to the financial statements set out on pages 13 to 34.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

### a) Basis of preparation

This financial report is a general-purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

#### **Historical cost**

This financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

#### **Going concern basis**

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred an operating loss of \$8,531,000 during the year ended 30 June 2004 (increased from a loss of \$8,206,000 for the year ended 30 June 2003) and had net current liabilities of \$18,725,000 (2003: \$13,586,000).

The directors nevertheless believe that it is appropriate to prepare the financial report on a going concern basis for the following reasons:

- ▶ The Company is completing a professional investor placement and raising \$5,352,000. At the date of this report \$4,352,000 has been received in cash. The professional investor placement was approved in an Extraordinary General Meeting held on 3 September 2004.
- ▶ The directors reached an agreement with the Australian Tax Office (ATO) and entered into a payment arrangement in relation to sums due for the last three years of group tax and goods and services tax. The directors anticipate reaching an agreement with the ATO for superannuation liabilities outstanding for the last four years.
- ▶ The directors believe that the consolidated entity will generate positive net cash flows from operating and funding activities over the next 12 months.

The consolidated entity's ability to generate positive net cash flows over the next 12 months from the date of this report, as contemplated in the business strategy

is dependent on several key factors which include, retention of current recurring revenue, significant growth in the Cosmos EC Real Estate payments product, growth in software and hardware sales in the Pharmasol and Dynsol POS and dispensing products, successful implementation of certain cost reduction plans and receipt of funding from the share placement.

There may be uncertainty whether the consolidated entity will be able to generate a positive net cash flow in the 12 months from the date of this report.

If the consolidated entity is unable to achieve net cash flows as anticipated in the business strategy, alternative strategies may be employed to raise additional funds and further reduce costs.

The going concern basis used in the preparation of the financial report may not be appropriate if the consolidated entity does not meet its planned revenue and cash flow targets or successfully adopt alternative strategies. In this event the consolidated entity may not be able to realise the full value of its assets and extinguish its liabilities, including contingent liabilities, in the normal course of business at the amounts stated in the financial report.

### b) Principles of consolidation

#### **Controlled entities**

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

#### **Transactions eliminated on consolidation**

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

### c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

#### **Sale of goods**

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

#### **Rendering of services**

Revenue from rendering services is recognised in proportion to the stage of contract completion when the stage of contract completion can be reliably measured.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

Deferred maintenance revenue is recognised by amortising the payment on a straight-line basis over the life of the contract as the maintenance services are performed.

## **Interest revenue**

Interest revenue is recognised as it accrues, taking into account the effective yield of the asset.

## **Sale of non-current assets**

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

## **d) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## **e) Foreign currency transactions and balances**

Foreign currency transactions during the year are translated to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial period in which the exchange rate changes.

## **f) Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and finance lease charges. Borrowing costs are expensed as incurred.

## **g) Taxation**

The consolidated entity adopts the income statement liability method of tax-effect accounting.

Income tax expense is calculated on operating result adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

The consolidated entity has not entered into the tax consolidation regime as at 30 June 2004.

## **h) Earnings per share**

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

## **i) Acquisition of assets**

All assets acquired, including property, plant and equipment and intangibles, other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they can be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

Company if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, that are probable, and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

## **Research and development costs**

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

## **Subsequent additional costs**

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, costs are expensed as incurred.

## **j) Use and revision of accounting estimates**

The preparation of the financial report requires the making of estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## **k) Receivables (Note 8)**

### **Trade debtors**

Trade debtors are to be settled within normal trading terms are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

### **Controlled entities**

Where an amount owing by a controlled entity to the Company exceeds the net assets of that controlled entity, a provision is made against the recovery of the loan in the books of the Company. This entry is eliminated upon consolidation.

## **l) Inventories (Note 9)**

Inventories are carried at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring inventories and bringing them to their present location and condition.

## **m) Investments (Note 11)**

### **Controlled entities**

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

## **n) Leased assets (Note 21)**

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

### **Finance leases**

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

### **Operating leases**

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the lease.

## **o) Intangibles (Note 14)**

### **Intellectual Property**

Intellectual property rights comprised various applications, intellectual knowledge and know-how. The value of intellectual property is comprised of the capitalised cost incurred in acquiring intellectual property less amortisation.

### **Goodwill**

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Goodwill balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off to the statement of financial performance.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

**p) Recoverable amount of non current assets valued on a cost basis**

The carrying amounts of all non-current assets valued on a cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing the recoverable amounts of non-current assets the relevant cash flows have been discounted to their present values.

**q) Depreciation and amortisation**

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets and are separately depreciated.

**Useful lives**

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the diminishing value method over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

	2004	2003
<b>Property, plant and equipment</b>		
Leasehold improvements	2.5-20%	2.5-20%
Plant and equipment	13-40%	13-40%
Leased plant and equipment	13-40%	13-40%
<b>Intangibles</b>		
Goodwill	10 years	10 years
Intellectual property	5-10 years	5-10 years

**r) Payables (Note 15)**

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within established terms.

**s) Interest bearing liabilities (Note 16)**

Bank loans are carried on the statement of financial position at their principal amount. Interest expense is accrued at the contracted rate. Notes payable are recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest expense is recognised on an effective yield basis.

**t) Financial instruments issued**

Where financial instruments, such as preference shares and convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Where financial instruments are redeemable but either the holder or the Company has an option to convert them into ordinary shares of the Company, they are classified as compound instruments. The liability component is measured as the present value of the principal and interest obligations, discounted at the prevailing market rate for a similar liability that does not have an equity component. The residual of the net proceeds received on issuing the instrument is classified as equity.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. The liability accretes over the life of the instruments to the original face value if they are not previously converted. There are no dividends associated with the equity component.

**u) Employee benefits (Note 23)**

**Wages, salaries and annual leave, sick leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

**Long service leave**

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows resulting from employee's services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## **Employee share and option plans**

Where shares or options are issued to employees as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

Other share or options issued to employees are recorded in contributed equity at the fair value of consideration received, if any.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

## **Superannuation plan**

The Company and controlled entities contribute to several employee defined contribution superannuation funds. The contributions are recognised as an expense as they are made. The company and its controlled entities have no legal or constructive obligation to fund any deficit.

## **v) Provisions**

A provision is recognised when there are legal, equitable or constructive obligations as a result of past events and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

## **w) Changes in accounting policy**

There were no changes in accounting policy during the year ended 30 June 2004.

	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
Note	\$'000	\$'000	\$'000	\$'000
<b>NOTE 2: REVENUE FROM ORDINARY ACTIVITIES</b>				
Sale of goods revenue from operating activities	1,723	5,302	-	-
Rendering of services revenue from operating activities	15,526	14,772	-	-
	<b>17,249</b>	<b>20,074</b>	<b>-</b>	<b>-</b>
<b>Other Revenue</b>				
Interest revenue from other parties	12	16	-	3
Other revenue	87	61	50	-
Gain on settlement of liability	-	866	-	-
Proceeds from sale of Surefire	578	-	-	-
<b>Total other revenue</b>	<b>677</b>	<b>943</b>	<b>50</b>	<b>3</b>
<b>Total revenue from ordinary activities</b>	<b>17,926</b>	<b>21,017</b>	<b>50</b>	<b>3</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

		CONSOLIDATED		THE COMPANY	
		2004	2003	2004	2003
	Note	\$'000	\$'000	\$'000	\$'000
<b>NOTE 3: LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>					
Loss from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:					
<b>Depreciation</b>					
Plant and equipment	13	243	420	30	34
<b>Amortisation</b>					
Goodwill	14	725	1,071	-	-
Intellectual property	14	286	390	-	-
Leased plant and equipment	13	280	73	9	7
Leasehold improvements	13	55	14	12	-
<b>Total depreciation and amortisation</b>		<b>1,589</b>	<b>1,968</b>	<b>51</b>	<b>41</b>
Net (profit)/loss on disposal of non-current assets and investments		35	42	-	21
Research and development costs		160	408	-	-
Movement in provision for doubtful debts		791	198	-	-
Employee entitlement provisions		195	151	139	40
<b>Borrowing costs</b>					
Borrowing costs – ANZ loan		-	59	-	59
Borrowing cost preference shares		30	30	-	-
Borrowing costs – convertible notes		645	5	645	5
Borrowing cost other debt		807	468	439	105
<b>Total borrowing costs</b>		<b>1,482</b>	<b>562</b>	<b>1,084</b>	<b>169</b>
Loss on sale of Surefire		167	-	-	-
Cost of goods sold		1,693	4,352	-	-
Operating lease rental expense: minimum lease payments		1,137	1,001	253	111
Write down in value of inventory and licence fees		141	654	-	-
Individually significant items:					
Write down of goodwill		-	1,645	-	-
Provision against recovery of loans with controlled entities		-	-	1,481	5,268

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
Note	\$'000	\$'000	\$'000	\$'000
<b>NOTE 4: TAXATION</b>				
<b>Prima facie income tax (benefit) on operating loss calculated tax at 30% (2003: 30%)</b>	(2,559)	(2,462)	(3,119)	(2,371)
Decrease in income tax benefit due to non deductible items				
Amortisation of intangibles	303	414	-	-
Write down of goodwill	-	494	-	-
Write down of intellectual property	-	-	-	-
Provision for write off of investment	-	-	-	-
Provision on intercompany balances	-	-	444	1,580
Entertainment and travel	-	-	-	-
Current year timing differences not recognised as a future income tax benefit	953	(10)	1,831	19
Current year tax losses not recognised as a future income tax benefit	1,303	1,564	844	772
<b>Income tax benefit attributable to loss from ordinary activities</b>	-	-	-	-
<b>Future income tax benefit not taken into account</b>				
Timing differences	1,577	624	2,756	925
Tax losses carried forward	8,697	7,394	4,341	3,497
	<b>10,274</b>	<b>8,018</b>	<b>7,097</b>	<b>4,422</b>

The potential future tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt.

The potential future tax benefit will only be obtained if:

- (i) The relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) The relevant company and/ or the consolidated entity continue to comply with the conditions for deductibility imposed by law; and
- (iii) No change in tax legislation adversely affects the relevant company and/ or the consolidated entity in realising the benefit.

	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$

## NOTE 5: AUDITOR'S REMUNERATION

### Audit services

Company auditors – KPMG	194,549	366,080	194,549	219,648
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### Other services

Company auditors – KPMG	148,167	-	148,167	-
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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

## NOTE 6: CASH

Cash at bank	1,768	24	343	9
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## NOTE 7: NOTES TO THE STATEMENTS OF CASH FLOWS

### Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

Cash assets	1,768	24	343	9
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### Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities:

Loss from ordinary activities after income tax	(8,531)	(8,206)	(10,397)	(7,902)
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### Add/(less) non-cash items:

Amortisation of goodwill	725	1,071	-	-
Amortisation of intellectual property	286	390	-	-
Write down of goodwill	-	1,645	-	-
Depreciation & amortisation of property plant and equipment	578	507	51	41
Net increase/(decrease) in provisions	986	132	139	5,330
Share issues in settlement of operating costs/accounts payable	1,318	125	1,318	125
Interest accreted on Amfac loan	121	-	-	-
Interest on preference shares	-	15	-	-
Interest expenses on finance leases	3	7	-	-

### Add/(less) item classified as investing:

Loss on sale of Surefire	167	-	-	-
Loss on disposal of non-current assets and investment	35	42	-	21

<b>Net Loss from ordinary activities after income tax</b>	<b>(4,312)</b>	<b>(4,272)</b>	<b>(8,889)</b>	<b>(2,385)</b>
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### Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:

(Increase)/decrease in trade and term debtors	(1,643)	620	-	-
(Increase)/decrease in inventories	183	309	-	-
(Increase)/decrease in other assets	511	-	268	2,488
Increase/(decrease) in trade creditors and accruals	(511)	2,285	1,350	(591)
Increase in unearned revenue	1,374	(799)	-	-
(Decrease)/increase in other liabilities	1,717	-	850	-
<b>Net cash provided by/(used in) operating activities</b>	<b>(2,681)</b>	<b>(1,857)</b>	<b>(6,421)</b>	<b>(489)</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

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	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
<b>NOTE 8: RECEIVABLES</b>				
<b>Current</b>				
Trade debtors	3,646	2,003	-	-
Provision for doubtful debts	(1,357)	(567)	-	-
	<b>2,289</b>	<b>1,436</b>	-	-
Other debtors	-	327	-	-
	<b>2,289</b>	<b>1,763</b>	-	-
<b>Non-current</b>				
Amounts receivable from:				
Wholly owned subsidiaries	-	-	8,144	8,268
Provision for non-recovery of debt owing by wholly-owned subsidiaries	-	-	(8,144)	(8,268)
	-	-	-	-
<b>NOTE 9: INVENTORY</b>				
Finished goods at net realisable value	134	466	-	-
<b>NOTE 10: OTHER CURRENT ASSETS</b>				
Prepayments	309	-	174	-
Other assets	105	576	-	332
	<b>414</b>	<b>576</b>	<b>174</b>	<b>332</b>
<b>NOTE 11: INVESTMENTS</b>				
Shares in controlled entities unquoted at cost	-	-	11,264	11,264
Provision for diminution of carrying value of investments	-	-	(11,264)	(11,264)
	-	-	-	-

	COUNTRY OF INCORPORATION	% OWNED	
		2004	2003
<b>NOTE 12: CONTROLLED ENTITIES</b>			
<b>Particulars of controlled entities</b>			
Dynsol Pty Limited	Australia	100%	100%
Pharmasol Pty Limited	Australia	100%	100%
Ecosem S A	France	100%	100%
Dynsol Limited	United Kingdom	100%	100%
Cosmos E-C Commerce Limited	Australia	100%	100%
Surefire Systems Pty Limited	Australia	100%	100%



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

	CONSOLIDATED		THE COMPANY	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>NOTE 13: PROPERTY, PLANT &amp; EQUIPMENT</b>				
Leasehold improvements at cost	172	164	26	-
Accumulated amortisation	(91)	(30)	(12)	-
	<b>81</b>	<b>134</b>	<b>14</b>	<b>-</b>
Plant and equipment at cost	1,469	2,121	242	158
Accumulated depreciation	(917)	(1,508)	(156)	(126)
	<b>552</b>	<b>613</b>	<b>86</b>	<b>32</b>
Leased plant and equipment	967	967	30	30
Accumulated amortisation	(820)	(540)	(15)	(7)
	<b>147</b>	<b>427</b>	<b>15</b>	<b>23</b>
<b>Total property plant &amp; equipment</b>	<b>780</b>	<b>1,174</b>	<b>115</b>	<b>55</b>

## Reconciliations

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

### Leasehold improvements

Carrying amount at beginning of year	134	133	-	-
Additions	101	15	26	-
Disposals	(99)	-	-	-
Amortisation	(55)	(14)	(12)	-
<b>Carrying amount at end of year</b>	<b>81</b>	<b>134</b>	<b>14</b>	<b>-</b>

### Plant and equipment

Carrying amount at beginning of year	613	739	32	48
Additions	360	315	84	18
Disposals	(178)	(21)	-	-
Depreciation	(243)	(420)	(30)	(34)
<b>Carrying amount at end of year</b>	<b>552</b>	<b>613</b>	<b>86</b>	<b>32</b>

### Leased plant and equipment

Carrying amount at beginning of year	427	505	23	34
Additions	-	16	1	16
Disposals	-	(21)	-	(20)
Amortisation	(280)	(73)	(9)	(7)
<b>Carrying amount at end of year</b>	<b>147</b>	<b>427</b>	<b>15</b>	<b>23</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

	CONSOLIDATED		THE COMPANY	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>NOTE 14: INTANGIBLE ASSETS</b>				
Goodwill at cost	9,201	9,201	-	-
Accumulated amortisation	(4,660)	(3,935)	-	-
	<b>4,541</b>	<b>5,266</b>	-	-
Intellectual property at recoverable amount	1,260	3,676	-	-
Accumulated amortisation	(1,008)	(2,137)	-	-
	<b>252</b>	<b>1,539</b>	-	-
<b>Total intangible assets</b>	<b>4,793</b>	<b>6,805</b>	-	-
<b>Reconciliation of movement in goodwill</b>				
Opening balance	5,266	6,071	-	-
Goodwill acquired in period	-	1,911	-	-
Amortisation and write-down in the period	(725)	(2,716)	-	-
<b>Closing balance</b>	<b>4,541</b>	<b>5,266</b>	-	-
<b>Reconciliation of movement in intellectual property</b>				
Opening balance	1,539	1,929	-	-
Write down in the period (Surefire)	(1,001)	-	-	-
Amortisation in the period	(286)	(390)	-	-
<b>Closing balance</b>	<b>252</b>	<b>1,539</b>	-	-

The consolidated entity is in the early stages of rollout of new product lines of business in retail solutions and electronic payments. The recoverable value of intangible assets, including intellectual property and goodwill is dependant upon the consolidated entity achieving customer growth expectations from its new business lines in retail solutions and electronic payments and in the short term having sufficient working capital to fund the ongoing rollout of these new business lines. In reviewing the recoverable amount of the intangible assets, the Directors have considered the following components comprising the goodwill and intellectual property.

## Goodwill

Goodwill relates to the acquisition of the Lockie Computer business by Pharmasol Pty Limited and goodwill arising on consolidation of Cosmos E-C Commerce Limited and Amfac (Dynsol Pty Limited).

Based on an assessment of the recoverable amount of goodwill in Pharmasol during the prior period the consolidated entity wrote goodwill down by \$1,645,000 during the year ended 30 June 2003.

It is company policy, that the carrying values of goodwill are supported by 5 year discounted cash flow forecasts. These forecast are based on current and projected budgets for the next five years.

## Intellectual property

Cosmos E-C Commerce Limited (Cosmos EC): The Cosmos EC system provides low-cost, on-line processing of credit and debit card transactions via proprietary telephone and internet exchange systems, employing state-of-the-art security (encryption), telecommunications and information technology systems. Processing relationships with six banks enable payments to be made via customer initiated or periodical direct debit. This technology developed by Cosmos EC has emerged from the developmental phase and has exclusive user agreements with a number of major real estate franchisors. In addition to the Real Estate product the Company provides e-commerce services to more than 200 business clients. This business is expanding rapidly. The carrying amount of Cosmos E-C Commerce Pty Limited intellectual property at 30 June 2004 was \$252,000 (2003: \$504,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
Note	\$'000	\$'000	\$'000	\$'000
<b>NOTE 15: PAYABLES</b>				
<b>Current</b>				
Trade creditors	8,355	9,058	1,074	944
Sundry creditors and accruals	2,672	1,646	1,567	277
Other	18	223	-	70
Deferred software maintenance revenue	2,061	870	-	-
	<b>13,106</b>	<b>11,797</b>	<b>2,641</b>	<b>1,291</b>

## NOTE 16: INTEREST BEARING LIABILITIES

<b>Current</b>					
Lease liability	21	11	67	-	-
Loan facility – unsecured		-	602	-	602
Other loans – unsecured		-	1,307	-	1,307
Convertible notes <sup>1</sup>		7,759	605	7,759	605
Loan facility secured <sup>2</sup>		1,936	1,173	-	-
Other debt		-	270	-	-
<b>Total current interest bearing liabilities</b>		<b>9,706</b>	<b>4,024</b>	<b>7,759</b>	<b>2,514</b>
<b>Non-current</b>					
Lease liability	21	-	11	-	-
Loan facility secured <sup>2</sup>		429	1,072	-	-
Other debt		-	-	-	-
<b>Total non current interest bearing liabilities</b>		<b>429</b>	<b>1,083</b>	<b>-</b>	<b>-</b>

### 1 Convertible note

On 3 July 2003 the Company issued 600,000 Convertible Redeemable Notes at \$1 each for working capital purposes. Each \$1 note converts into 50 shares for each note at \$0.02 per share, and attracts interest at 15% p.a. Conversion into ordinary fully paid shares occurs at any time until 30 September 2005.

On 30 September 2003 the Company issued 6,354,130 Secured Convertible Redeemable Notes at \$1 each. Each \$1 note converts into 50 shares for each note at \$0.02 per share, and attracts interest at 10% p.a. Conversion into ordinary fully paid shares occurs at any time until 31 July 2006.

On 1 February 2004 the Company issued 200,000 Secured Convertible Redeemable Notes at \$1 each for services received. Each \$1 note converts into 50 shares for each note at \$0.02 per share, and attracts interest at 10% p.a. Conversion into ordinary fully paid shares occurs at any time until 31 July 2006.

### 2 Loan facility secured

The purchase of Amfac (Dynsol Pty Limited) was funded by a loan from Faulding Healthcare Pty Ltd. The principle of \$2,450,000 repayable in the following instalments:

- ▶ 50% of net assets acquired up to a maximum of \$100,000 due 30 days from the date of acquisition
- ▶ Balance of net assets up to maximum value of \$100,000 due 60 days from the date of acquisition
- ▶ Balance of net assets acquired up to a maximum of \$100,000 due 90 days from the date of acquisition
- ▶ Balance of net assets due 120 days from the date of acquisition
- ▶ \$800,000 due one year from the date of acquisition

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

- ▶ \$800,000 due two years from the date of acquisition.
- ▶ Balance of the loan due three years from the date of acquisition

The loan is non-interest bearing and is secured over all the assets and undertakings of Dynsol Pty Limited. As at the date of this report the four initial payments per the agreement have not been paid and penalty interest at a rate of 12% p.a. is being incurred.

	Note	CONSOLIDATED		THE COMPANY	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

## NOTE 17: PROVISIONS

### Current

Employee entitlements	23	518	594	204	81
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### Non-current

Employee entitlements	23	98	49	16	-
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## NOTE 18: CONTRIBUTED EQUITY

### Issued and paid-up capital

318,298,254 fully paid ordinary shares (2003: 241,547,714)	65,267	61,315	65,267	61,315
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### Movement in ordinary share capital

At the beginning of the financial year	61,315	61,040	61,315	61,040
--	--------	--------	--------	--------

Shares issued during the year	3,952	275	3,952	275
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<b>At the end of the financial year</b>	<b>65,267</b>	<b>61,315</b>	<b>65,267</b>	<b>61,315</b>
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On 10 July 2003, the Company issued 6,000,000 fully paid ordinary shares at \$0.025 per share (\$150,000) being consideration for interest payments to TDH No.2 Pty Ltd.

On 22 July 2003, the Company issued 16,639,555 fully paid ordinary shares as following:

- ▶ 2,508,361 fully paid ordinary shares issued at \$0.0598 (\$150,000) being consideration for interest payment to TDH No.2 Pty Ltd.
- ▶ 10,097,607 fully paid ordinary shares issued at \$0.08 per share (\$807,809) being consideration for services received by Cosmos Limited.
- ▶ 1,344,529 fully paid ordinary shares at \$0.08 (\$107,562) and 2,689,058 shares at \$0.08 (\$215,125) to Dr Henry Preston and Dr John Burrows respectively in consideration of loan settlement.

On 31 January 2004, the Company issued 54,110,985 fully paid ordinary shares as following:

- ▶ 37,500,000 fully paid ordinary shares issued at \$0.0584 (\$2,190,000) being consideration for conversion of preference shares into ordinary shares to TDH No.2 Pty Ltd\*.
- ▶ 15,110,985 fully paid ordinary shares issued at \$0.02 (\$302,220) being consideration of interest on convertible notes.
- ▶ 1,500,000 fully paid ordinary shares issued at \$0.02 (\$30,000) being consideration for services received from Dr Henry Preston.

On 6 July 2004, Cosmos Limited announced that it successfully raised \$5,352,407 from a placement to professional investors and share purchase plan. The placement was approved at the Extraordinary General Meeting held on 3 September 2004.

\* On 28 November 2003, AGM approved under listing rule 7.1 the issue to TDH No.2 Pty Ltd of 37,500,000 ordinary shares at \$0.0584 being conversion of preference shares, which had been issued on 7 July 2000. These preference shares had previously been treated as outside equity interest.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

	CONSOLIDATED		THE COMPANY	
	2004	2003	2004	2003
Note	\$'000	\$'000	\$'000	\$'000
<b>NOTE 19: ACCUMULATED LOSSES</b>				
Accumulated losses at the beginning of the year	(70,274)	(62,068)	(64,805)	(56,903)
Net loss attributable to members of the parent entity	(8,531)	(8,206)	(10,397)	(7,902)
<b>Accumulated losses at the end of the year</b>	<b>(78,805)</b>	<b>(70,274)</b>	<b>(75,202)</b>	<b>(64,805)</b>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## NOTE 20: ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

### Foreign exchange risk

The Company has ceased its operations in France (Ecosem) and the United Kingdom (Dynsol Limited) in 2000 and subsequently has no other exposure to foreign exchange risk.

### Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

Fixed interest maturing in:

<b>FIXED INTEREST MATURING IN:</b>	<b>WEIGHTED AVG INTEREST RATE %</b>	<b>FLOATING INTEREST RATE \$'000</b>	<b>1 YEAR OR LESS \$'000</b>	<b>1-5 YEARS \$'000</b>	<b>MORE THAN 5 YEARS \$'000</b>	<b>NON-INTEREST BEARING \$'000</b>	<b>TOTAL \$'000</b>
<b>2004</b>							
<b>Financial assets</b>							
Cash	1.15	1,768	-	-	-	-	1,768
Receivables	Nil	-	-	-	-	2,598	2,598
		<b>1,768</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,598</b>	<b>4,366</b>
<b>Financial Liabilities</b>							
Convertible notes	10.40	-	7,759	-	-	-	7,759
Payables	Nil	-	-	-	-	13,106	13,106
Employee entitlements	Nil	98	-	-	-	518	616
Lease liability	9.01	-	11	-	-	-	11
Other debt	18.50	-	1,936	429	-	-	2,365
		<b>98</b>	<b>9,706</b>	<b>429</b>	<b>-</b>	<b>13,624</b>	<b>23,857</b>
<b>2003</b>							
<b>Financial assets</b>							
Cash	1.15	24	-	-	-	-	24
Receivables	Nil	-	-	-	-	1,763	1,763
		<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,763</b>	<b>1,787</b>
<b>Financial liabilities</b>							
Borrowings	6.35	-	602	-	-	-	602
Convertible notes	10.00	-	605	-	-	-	605
Payables	Nil	-	-	-	-	11,797	11,797
Employee entitlements	5.25	49	-	-	-	594	643
Lease liability	9.01	-	67	11	-	-	78
Other debt	12.50	-	1,577	-	-	2,245	3,822
		<b>49</b>	<b>2,851</b>	<b>11</b>	<b>-</b>	<b>14,636</b>	<b>17,547</b>

### Net fair values of financial assets and liabilities

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date approximates their carrying amounts.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## Credit risk

The credit risk of financial assets, excluding investments, of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises the concentration of credit risk by undertaking transactions with a large number of customers.

Note	CONSOLIDATED		THE COMPANY	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

## NOTE 21: COMMITMENTS

### Finance lease commitments

#### Payable

not later than 1 year	11	70	-	-
later than 1 year but not later than 5 years	-	11	-	-
later than 5 years	-	-	-	-
Minimum lease payments	11	81	-	-
Less future finance charges	-	(3)	-	-
<b>Total lease liability</b>	<b>11</b>	<b>78</b>	<b>-</b>	<b>-</b>

### Non-cancellable operating lease expense commitments

#### Payable

not later than 1 year	760	726	210	195
later than 1 year but not later than 5 years	559	1,067	125	309
later than 5 years	-	-	-	-
<b>Minimum lease payments</b>	<b>1,319</b>	<b>1,793</b>	<b>335</b>	<b>504</b>

The consolidated entity leases property under non-cancellable operating leases expiring from two to five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

## NOTE 22: SEGMENT INFORMATION

### Major products / services for each industry segment

The consolidated entity conducts:

- ▶ Retail Technology business providing POS software, hardware and support services to the retail industry through its controlled entities, Pharmasol Pty Limited and Surefire Systems Pty Limited.
- ▶ Transaction Processing business providing electronic funds transfer and processing services principally to rental tenants through the Real Estate industry through its controlled entity Cosmos E-C Commerce Limited.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## Statement of operations by segments

### Business segments

	TRANSACTION PROCESSING		RETAIL TECHNOLOGY		ELIMINATIONS		CONSOLIDATED	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Segment revenue	5,394	4,993	12,470	15,157	-	-	17,864	20,150
Unallocated revenue	-	-	-	-	-	-	62	867
<b>Total revenue</b>	<b>5,394</b>	<b>4,993</b>	<b>12,470</b>	<b>15,157</b>	<b>-</b>	<b>-</b>	<b>17,926</b>	<b>21,017</b>
Segment result	552	(332)	(179)	(5,468)	-	-	373	(5,800)
Unallocated expenses	-	-	-	-	-	-	(8,904)	(2,406)
<b>Profit/(loss) from ordinary activities</b>	<b>552</b>	<b>(332)</b>	<b>(179)</b>	<b>(5,468)</b>	<b>-</b>	<b>-</b>	<b>(8,531)</b>	<b>(8,206)</b>
Segment assets	1,115	1,558	10,679	8,854	(2,160)	-	9,634	10,412
Unallocated assets	-	-	-	-	-	-	685	396
<b>Total assets</b>	<b>1,115</b>	<b>1,558</b>	<b>10,679</b>	<b>8,854</b>	<b>(2,160)</b>	<b>-</b>	<b>10,319</b>	<b>10,808</b>
Segment liabilities	(4,841)	(2,248)	(21,791)	(11,198)	13,396	-	(13,236)	(13,446)
Unallocated liabilities	-	-	-	-	-	-	(10,621)	(4,101)
<b>Total liabilities</b>	<b>(4,841)</b>	<b>(2,248)</b>	<b>(21,791)</b>	<b>(11,198)</b>	<b>13,396</b>	<b>-</b>	<b>(23,857)</b>	<b>(17,547)</b>
<b>Net (liabilities)/assets</b>	<b>(3,726)</b>	<b>(2,344)</b>	<b>(11,112)</b>	<b>(690)</b>	<b>11,236</b>	<b>-</b>	<b>(13,538)</b>	<b>(6,739)</b>
Depreciation and amortisation	(497)	(511)	(1,042)	(1,457)	-	-	(1,539)	(1,968)
Unallocated	-	-	-	-	-	-	(50)	-
<b>Total depreciation and amortisation</b>	<b>(497)</b>	<b>(511)</b>	<b>(1,042)</b>	<b>(1,457)</b>	<b>-</b>	<b>-</b>	<b>(1,589)</b>	<b>(1,968)</b>
Other non cash expenses	-	(270)	-	-	-	-	-	(270)
Unallocated	-	-	-	-	-	-	(832)	-
<b>Total other non-cash expenses</b>	<b>-</b>	<b>(270)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(832)</b>	<b>(270)</b>
Acquisitions of non-current assets	173	108	117	238	-	-	290	346
Unallocated	-	-	-	-	-	-	171	-
<b>Total acquisitions of non-current assets</b>	<b>173</b>	<b>108</b>	<b>117</b>	<b>238</b>	<b>-</b>	<b>-</b>	<b>461</b>	<b>346</b>
Inventory write down	-	-	141	654	-	-	141	654
Unallocated	-	-	-	-	-	-	-	-
<b>Total inventory writedown</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>654</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>654</b>
Individually significant items:								
Write-down of goodwill	-	-	-	(1,645)	-	-	-	(1,645)
Unallocated	-	-	-	-	-	-	-	-
<b>Total writedown of goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,645)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,645)</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## Geographical segments

The consolidated entity operates predominately in Australia. More than 90% of the loss from ordinary activities and segment assets relate to operations in Australia.

	NEW SOUTH WALES		VICTORIA		ELIMINATIONS		CONSOLIDATED	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	9,751	6,734	8,113	13,416	-	-	17,864	20,150
Unallocated	-	-	-	-	-	-	62	867
<b>Total revenue</b>	<b>9,751</b>	<b>6,734</b>	<b>8,113</b>	<b>13,416</b>	<b>-</b>	<b>-</b>	<b>17,926</b>	<b>21,017</b>
Segment result	781	(860)	(408)	(4,940)	-	-	373	(5,800)
Unallocated	-	-	-	-	-	-	(8,904)	(2,406)
<b>Profit/(loss) from ordinary activities</b>	<b>781</b>	<b>(860)</b>	<b>(408)</b>	<b>(4,940)</b>	<b>-</b>	<b>-</b>	<b>(8,531)</b>	<b>(8,206)</b>
Segment assets	4,709	3,878	7,085	6,534	(2,160)	-	9,634	10,412
Unallocated	-	-	-	-	-	-	685	396
<b>Total assets</b>	<b>4,709</b>	<b>3,878</b>	<b>7,085</b>	<b>6,534</b>	<b>(2,160)</b>	<b>-</b>	<b>10,319</b>	<b>10,808</b>
Segment liabilities	(12,452)	(5,378)	(14,180)	(8,068)	13,396	-	(13,236)	(13,446)
Unallocated	-	-	-	-	-	-	(10,621)	(4,101)
<b>Total liabilities</b>	<b>(12,452)</b>	<b>(5,378)</b>	<b>(14,180)</b>	<b>(8,068)</b>	<b>13,396</b>	<b>-</b>	<b>(23,857)</b>	<b>(17,547)</b>
<b>Net (liabilities)/assets</b>	<b>(7,743)</b>	<b>(1,500)</b>	<b>(7,095)</b>	<b>(1,534)</b>	<b>11,236</b>	<b>-</b>	<b>(13,538)</b>	<b>(6,739)</b>
Acquisition of non-current assets	233	288	57	58	-	-	290	346
Unallocated	-	-	-	-	-	-	171	-
<b>Total acquisition of non-current assets</b>	<b>233</b>	<b>288</b>	<b>57</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>461</b>	<b>346</b>

		CONSOLIDATED		THE COMPANY	
	Note	2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000

## NOTE 23: EMPLOYEE BENEFITS

Aggregate liability for employee entitlements, including on-costs

Current	17	518	594	204	81
Non-current	17	98	49	16	-
		<b>616</b>	<b>643</b>	<b>220</b>	<b>81</b>

## Employee share option scheme

The Directors may in their sole discretion select eligible employees or directors to whom options are to be issued and determine the number of options to be offered. The maximum number of shares in respect of which options may be issued pursuant to the plan shall not exceed 5% of the number of shares in the Company on issue. The right to exercise the options is subject to a number of conditions, including the employee remaining an eligible employee during the option period of 5 years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

Grant Date	Vested	Expiry Date	Exercise Price \$	Options at Start of Year	Options Lapsed	Options Exercised	Options at Year End
<b>Consolidated and Company 2004</b>							
01/04/99	Yes	01/04/04	0.50	240,000	240,000	-	-
03/08/99	No	27/05/04	0.50	1,920,000	1,920,000	-	-
27/09/00	No	17/10/03	0.25	5,500,000	5,500,000	-	-
27/09/00	No	17/10/03	0.30	5,500,000	5,500,000	-	-
30/04/03	No	26/04/04	0.40	4,000,000	4,000,000	-	-
08/01/03	Yes	28/11/05	0.065	2,000,000	-	-	2,000,000
08/01/03	Yes	28/11/05	0.13	2,000,000	-	-	2,000,000
08/01/03	Yes	28/11/07	0.08	500,000	500,000	-	-
							<b>4,000,000</b>
<b>Consolidated and Company 2003</b>							
01/04/99	Yes	01/04/04	0.50	240,000	-	-	240,000
03/08/99	No	27/05/04	0.50	1,920,000	-	-	1,920,000
27/09/00	No	17/10/03	0.25	5,500,000	-	-	5,500,000
27/09/00	No	17/10/03	0.30	5,500,000	-	-	5,500,000
30/04/03	No	26/04/04	0.40	4,000,000	-	-	4,000,000
08/01/03	Yes	28/11/05	0.065	2,000,000	-	-	2,000,000
08/01/03	Yes	28/11/05	0.13	2,000,000	-	-	2,000,000
08/01/03	Yes	28/11/07	0.08	500,000	-	-	500,000
							<b>21,660,000</b>

Each option is convertible to one ordinary share. There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the option has been exercised.

## Superannuation funds

The consolidated entity contributes to a number of superannuation funds. The funds are not sponsored by the consolidated entity and are accumulation funds providing benefit on retirement, disability or death. Employer contributions are based on the statutory percentage of the employee's gross salaries. The consolidated entity does not have any legal obligations to make up any shortfall of assets in the accumulation funds.

## Number of employees

The number of employees at year-end; Consolidated 104 (2003: 167), the Company 7 (2003:7).

## NOTE 24: DIRECTORS' AND EXECUTIVES' DISCLOSURES FOR DISCLOSING ENTITIES

### Remuneration of specified Directors and specified executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages include a mix of fixed, performance based, and equity based remuneration and are reviewed / compared to comparative companies and positions.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles, which are a mixture of divisional results and the overall consolidated result of the consolidated entity, agreed with the Managing Director and consistent with the consolidated entity's direction. The performance hurdles are quantifiable and reviewed as part of a formal performance appraisal process. Options may be issued under the Cosmos employee share option plan, which provides for Directors to issue options to employees not exceeding 5% of the total number of shares on issue in any given year.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

The following table provides the details of all directors of the company ("specified directors") and the six executives of the consolidated entity with the greatest authority ("specified executives") and the nature and the amount of the elements of their remuneration for the year ended 30 June 2004.

	PRIMARY BENEFITS		POST EMPLOY.	EQUITY COMP.	OTHER BENEFITS	
	Salary & Fees \$	Bonus \$ (B)	Super contributions \$	Value of Options \$ (A)	Termination Benefits \$	Total \$
<b>Specified directors</b>						
<b>H Preston</b> (Chairman)	60,000	-	-	-	-	60,000
<b>R Tynan</b> (Resigned as Managing Director December 2003, appointed as Non-Executive Director)	275,000	-	-	54,667	-	353,699
<b>N Purves</b> (Appointed Managing Director December 2003)	311,920	100,000	24,450	-	-	436,370
	<b>646,920</b>	<b>100,000</b>	<b>24,450</b>	<b>54,667</b>	<b>-</b>	<b>826,037</b>
<b>Specified executives</b>						
<b>J Garrett</b> (Group Corporate Counsel)	260,000	100,000	24,975	-	-	384,975
<b>K Scott</b> (National IT Manager)	158,819	8,000	9,756	-	-	176,575
<b>C Rollinson</b> (Chief Financial Officer)	134,490	15,000	11,510	-	-	161,000
<b>L Dennis</b> (National Customer Care Manager)	82,691	5,000	7,442	-	-	95,133
<b>M Johnston</b> (Human Resource Manager)	67,845	5,000	6,105	-	-	78,950
<b>B Headford</b> (National Sales & Marketing Manager)	48,719	5,000	4,384	-	-	58,103
<b>J Collins</b> (CEO – Cosmos EC Commerce) (Resigned 7 May 2004)	192,078	-	13,500	-	54,326	259,904
<b>M Kesterton</b> (CEO – Market Solutions) (Resigned 8 June 2004)	196,117	38,454	10,662	-	-	245,233
<b>M Lewis</b> (Chief Information Officer) (Resigned 31 May 2004)	168,863	-	11,746	-	14,671	195,280
	<b>1,309,622</b>	<b>176,454</b>	<b>100,080</b>	<b>-</b>	<b>68,997</b>	<b>1,655,153</b>

(A) The fair value of the options is calculated at the date of grant using a Black Scholes model and allocated to each reporting period evenly over the period from grant date to expiry date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

(B) Bonuses are granted annually, before the end of the year. The grant date is tied to the performance appraisal, the criteria for which are set out earlier in this note.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2003	Granted as remuneration	Exercised	Other changes	held at 30 June 2004	Vested and exercisable at 30 June 2004
<b>Specified directors</b>						
<b>R Tynan</b>	4,000,000	-	-	-	4,000,000	4,000,000

## Equity holdings and transactions holdings

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2003	Received in lieu of payment of directors fees / convertible note interest	Sales	Held at 30 June 2004
<b>Specified directors</b>				
<b>H Preston</b>	6,694,529	1,698,370	(371,000)	8,021,899

## NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

On the 6th July 2004 the Company successfully raised \$5,352,000 from a placement of professional investors and share purchase plan. The capital raising will provide working capital and eliminate outstanding statutory debt liabilities.

On the 26th July 2004 the Company agreed to form a joint venture with X/procure Software (SA) Pty Limited, the major pharmacy supplier chain management provider in South Africa, to expand its pharmacy e-procurement offering. By joining forces, X/procure and Cosmos will bring to the pharmacy market throughout Australia what they believe to be the best pharmacy e-procurement systems operating in the world today.

## International financial reporting standards

For reporting periods commencing on or after 1 January 2005, the consolidated entity is required to prepare comparative financial statements reflecting the use of the International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

The consolidated entity has established a working group to manage the transition to IFRS. The working group has undertaken an initial assessment of the required changes and has already identified a number of changes to internal controls and information systems that will be required to capture the necessary financial information. There will also be staff training required. The working group, chaired by the Chief Financial Officer, is currently preparing a project specification for a detailed assessment of the requirement.

The working group, reporting to the Audit Committee, expects the consolidated entity to be able to generate the required disclosures of AASB1 as it transitions to Australian IFRS reporting during the course of the 2004/05 financial year.

A number of changes have already been identified, a summary of which appear below. This list is not exhaustive as work continues on defining the full impact of implementing IFRS in the consolidated entity.

## Intangible assets (goodwill and intellectual property)

Under Australian IFRS, amortisation of goodwill and intellectual property will be discontinued. It is being replaced with an annual impairment test based on the discounted cash flows of the relevant business cash generating operation. The impact of the change will be to prohibit amortisation of goodwill and intellectual property and, subject to any impairment charge, will result in a decrease in operating expenses for the consolidated entity.

## Equity based compensation

Equity based compensation to employees will be recognised as an expense in the periods in which the employee provides the relevant service. The impact of the change will be the recognition of the cost associated with the equity based compensation over the relevant vesting period, thereby resulting in an increase in operating expenses for the consolidated entity.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 June 2004

## Income Tax

Income Tax will be calculated on the “balance sheet” methodology rather than the current “income statement” methodology. Further, as tax effects follow the underlying transaction some tax effects will be recognised in equity. The impact of the change is not expected to be material to the consolidated entity.

## NOTE 26: RELATED PARTIES

### Wholly-owned group

Details of interest in wholly owned controlled entities are set out in Note 12. Loans between related parties are interest free.

### Balances with entities within the consolidated entity

The aggregate amounts receivable by the Company from controlled entities at balance date was \$Nil (2003: \$Nil).

## NOTE 27: DIVIDENDS

No dividends have been paid or declared for payment during the current and prior financial year.

	2004 \$'000	2003 \$'000
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## NOTE 28: EARNINGS PER SHARE

### Earnings reconciliation

Net loss	(8,531)	(8,206)
Basic earnings	(8,531)	(8,206)
Diluted earnings	(8,531)	(8,206)
	Number '000	Number '000

Weighted average number of ordinary shares used as the denominator

Number for basic earnings per share	285,468	241,127
Effect of share options on issue	-	-
<b>Number for diluted earnings per share</b>	<b>285,468</b>	<b>241,127</b>
<b>Basic loss per share</b>	<b>\$(0.030)</b>	<b>\$(0.034)</b>
<b>Diluted loss per share</b>	<b>\$(0.030)</b>	<b>\$(0.034)</b>

Diluted earnings per share has not been calculated for the convertible notes or share options on issue as there are no potential ordinary shares on issue that are dilutive in respect of these notes.

## NOTE 29: CONTINGENT LIABILITIES

The Company is currently involved in several litigation matters. The directors are of the opinion that provisions are not required in respect to these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

# DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 June 2004

In the opinion of the directors of Cosmos Limited:

1. The financial statements and notes are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and cash flows, for the year ended on that date; and
  - (b) complying with Accounting Standards and the Corporations Regulations 2001.
2. At the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the directors

Dated at Sydney on the 30th day of September 2004.



**Henry Preston**  
Chairman



**Nigel Purves**  
Managing Director

# INDEPENDENT AUDIT REPORT

FOR THE YEAR ENDED 30 June 2004



## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COSMOS LIMITED

### Scope

We have audited the financial report of Cosmos Limited for the financial year ended 30 June 2004, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 29, and the directors' declaration set out on page 45. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit opinion

In our opinion, the financial report of Cosmos Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

### Inherent Uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter.

As a result of the matters described in Note 1(a), there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

Roger Amos  
Partner

Sydney

30 September 2004



KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.



# SHAREHOLDING

FOR THE YEAR ENDED 30 June 2004

## Distribution of shareholders' shareholding

SIZE OF HOLDING	SHAREHOLDERS
1 - 1,000	267
1,001 - 5,000	448
5,001 - 10,000	298
10,001 - 100,000	1148
100,001 - +	276

The number of shareholdings held in less than marketable parcels is 1,227.

The names of the substantial shareholders listed in the holding company's register as at 30 June 2004 are:

SHAREHOLDER	ORDINARY SHARES	PERCENTAGE
TDH No 2 Pty Ltd	52,558,032	16.51%
Link Traders (Aust) Pty Ltd	34,924,665	10.97%
Happle Pty Ltd	22,598,320	7.10%

At 30 June 2004 there were 2,437 holders of the fully paid ordinary shares on the Company's register. The voting rights attached to the ordinary shares are 1 vote for each share held. The 20 largest shareholders are:

NAME	ORDINARY SHARES	% HELD OF ISSUED ORDINARY CAPITAL
1 TDH No 2 Pty Ltd	52,558,032	16.51%
2 Link Traders (Aust) Pty Ltd	34,924,665	10.97%
3 Happle Pty Ltd	22,598,320	7.10%
4 PBL Surefire Investment Pty Limited	13,720,830	4.31%
5 Mountain Services Limited	8,660,000	2.72%
6 Dr Henry Preston	8,021,899	2.52%
7 Kierford Arch Pty Ltd	6,420,950	2.02%
8 Dymax Consultants Pty Ltd	5,000,000	1.57%
9 Finsbury Limited	3,500,000	1.10%
10 National Nominees Limited	3,496,397	1.10%
11 Tesla Investments	3,369,565	1.06%
12 Anabit Pty Ltd	2,800,000	0.88%
13 Bond Street Custodians Limited	2,689,058	0.84%
14 OE Pty Ltd	2,501,359	0.79%
15 Bay Equities Limited	2,500,000	0.79%
16 Anabelle Bits Superannuation	2,245,000	0.71%
17 Westpac Custodian Nominees	2,230,890	0.70%
18 Mr Stephen Brian Clift & Mrs Alice Maryanne Clift	1,700,000	0.53%
19 Greenfield Company Limited	1,700,000	0.53%
20 Thirty-Sixth Vilmar Pty Ltd	1,666,667	0.52%
	<b>182,303,632</b>	<b>57.27%</b>



## **COSMOS LIMITED**

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