SOMNOMED LIMITED
ABN 35 003 255 221
ASX Preliminary final report – 30 June 2017

Lodged with the ASX under Listing Rule 4.3A

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SomnoMed Limited
Year ended 30 June 2017
Results for Announcement to the Market

				2017	2016
Revenue from ordinary activities	Increase by $5,242,821	Increase by 11.89%	to	$49,326,974	$44,084,153
Revenue from ordinary activities and interest revenue	Increase by $5,311,122	Increase by 12.03%	to	$49,451,210	$44,140,088
Profit/(loss) from ordinary activities after tax attributable to members	Decreased by $3,508,883	Decreased by 2127%	to	($3,343,878)	$165,005
Profit/(loss) from ordinary activities before tax attributable to members	Decreased by $3,472,268	Decreased by 658%	to	($2,944,543)	$527,725

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2017 are as follows:

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

The Board has resolved that no dividend will be paid for the year ended 30 June 2017.

Record date for determining entitlements to the dividend | N/A

A Historic Transitional Year for SomnoMed

The financial year 2016/17 is likely to be seen in retrospect as a milestone year for SomnoMed. Our new "Direct To Patient" business Renew Sleep Solutions ("RSS") was formed in the US at the beginning of the year and managed to open its first seven centres across six US states in a matter of just seven months from the time its first centre opened in December 2016.

At the same time, SomnoMed's core business, recovered in the fourth quarter showing a strong return to year on year growth, after slowing in the US in the second and third quarter because of the perception of some US customers that RSS would have a negative impact on their own practice. Very positive trends continued in Europe with growth rates climbing and exceeding 20% in Q4. This allowed Europe to represent close to 40% of our global sales in the financial year, which is the result of growing support for SomnoMed's alternative treatment for sleep apnea from medical practitioners and insurers in a growing number of European countries.

SomnoMed's core business increased its operating profit before group overheads by 30% generating an EBITDA growth of 60% to $2.4 million. The RSS start-up losses came to $4.1m associated with the recruitment of a skilled management team, formation of the RSS head office departments and start-up losses of the first seven centres. The consolidated EBITDA for the year came to a negative $1.7 million.

The financial year 2016/17 finished with revenues of $49.3 million, which represented an increase of 12% over the previous year. MAS device revenues were $41.1 million (up 10.6%), with non-device revenues exceeding $8.2 million. Total sales of 68,100 MAS units were 15.5% higher than in the previous year, with European sales growing by 20.6% due to strong results in both established and emerging markets and US unit sales increasing by 14.8%.

Gross margin generated on the sale of SomnoDent® devices during the financial year increased from 68.6% to 70%, due to volume increases and the impact of the use of digital technology. Overall gross margin increased from 57.5% to 58.4%

The cash investment made in RSS over 2017 has been $6.2m, with SomnoMed finishing the year with a cash balance of $14.2 million. The ongoing investment in RSS in the year ahead will be funded from existing cash reserves and operational cashflows.

SomnoMed is entering the new financial year in a very strong position. The first RSS centres were able to prove the concept and started generating a positive contribution after only five months of operation, whilst SomnoMed's core business will keep growing with positive signs in Europe and the US for 2017/18 and beyond.

Revenues for 2017/18 are expected to grow by 50-60%, from just under $50 million last year to between $75-80 million. The operating profits of SomnoMed's core business are expected to grow substantially in 2017/18. We expect the RSS centres open for 12 months or longer to generate contributions to cover the losses generated by the 10 to 12 new centres which are expected to open during the financial year 2017/18 and a substantial part of RSS' central cost.

The transition to a sleep solutions based company will continue and expand in 2017/18 and our guidance reflects SomnoMed's EBITDA increasing to around $5 million and providing a strong signal where the combined business of RSS and SomnoMed will go in the future.

SomnoMed Limited

Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Note	2017 $	2016 $
Revenue from sale of goods and services, net of discounts		49,326,974	44,084,153
Cost of sales		(20,517,224)	(18,741,061)
Gross margin		28,809,750	25,343,092
Sales and marketing expenses		(13,698,398)	(11,942,634)
Administrative expenses		(12,678,003)	(8,411,251)
Operating profit before corporate, research and business development expenses, other items of revenue and expenses and income tax		2,433,349	4,989,207
Corporate, research and business development expenses		(4,130,384)	(3,514,198)
Interest income		124,236	55,935
Net fair value (loss)/gain on contingent consideration payable		(32,551)	436,508
Share based payments		(805,502)	(337,397)
Depreciation and amortisation		(1,232,311)	(1,020,054)
Impairment of goodwill		(40,000)	-
Impairment of capitalised development costs		-	(49,843)
Interest expense		(20,422)	(10,723)
Loss on disposal of fixed assets		(6,025)	-
Unrealised foreign exchange loss		(54,386)	(58,663)
(Loss)/profit before income tax		**(3,763,996)**	**490,772**
Income tax expense attributable to operating profit		(399,335)	(423,587)
(Loss)/profit after income tax for the year		**(4,163,331)**	**67,185**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation difference for foreign operations		(761,137)	295,748
Other comprehensive income for the year, net of tax		(761,137)	295,748
Total comprehensive income for the year attributable to the owners of SomnoMed Limited		**(4,924,468)**	**362,933**
(Loss)/profit for the year is attributable to:			
Owners of the parent		(3,343,878)	165,005
Non-controlling interest		(819,453)	(97,820)
		(4,163,331)	**67,185**
Total comprehensive income for the year attributable to:			
Owners of SomnoMed Limited		(4,105,015)	460,753
Non-controlling interest		(819,453)	(97,820)
		(4,924,468)	**362,933**
Basic earnings per share (cents per share)	9	(6.23)	0.34
Diluted earnings per share (cents per share)	9	(6.23)	0.32

The above statement should be read in conjunction with the consolidated notes.

SomnoMed Limited
Preliminary Consolidated Statement of Financial Position
as at 30 June 2017

ASSETS	Note	2017	2016
		$	$
Current Assets			
Cash and cash equivalents		14,210,321	17,632,252
Trade and other receivables		10,196,708	7,847,165
Inventory		1,947,565	1,690,632
Total Current Assets		26,354,594	27,170,049
Non-Current Assets			
Trade and other receivables		264,738	-
Property, plant and equipment		4,491,423	3,572,965
Intangible assets	13	6,632,530	6,621,921
Deferred tax asset		3,468,762	3,062,237
Total Non-Current Assets		14,857,453	13,257,123
Total Assets		41,212,047	40,427,172
LIABILITIES			
Current Liabilities			
Trade and other payables		8,005,382	6,085,053
Provisions		1,547,355	936,820
Current tax liabilities		449,665	375,759
Contingent consideration payable	12	-	179,695
Total Current Liabilities		10,002,402	7,577,327
Non-Current Liabilities			
Provisions		254,839	161,217
Total Non-Current Liabilities		254,839	161,217
Total Liabilities		10,257,241	7,738,544
Net Assets		**30,954,806**	**32,688,628**
EQUITY			
Issued capital	14	46,937,360	44,552,216
Reserves		4,415,906	4,371,541
Accumulated losses		(19,139,530)	(15,795,652)
Equity attributable to owners of SomnoMed Limited		32,213,736	33,128,105
Non-controlling interests		(1,258,930)	(439,477)
Total Equity		**30,954,806**	**32,688,628**

The above statement should be read in conjunction with the consolidated notes.

SomnoMed Limited
Preliminary Consolidated Statement of Changes in Equity
for the year ended 30 June 2017

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 July 2016	44,552,216	4,371,541	(15,795,652)	33,128,105	(439,477)	32,688,628
(Loss)/profit after income tax expense for the year	-	-	(3,343,878)	(3,343,878)	(819,453)	(4,163,331)
Other comprehensive income for the year, net of tax	-	(761,137)	-	(761,137)	-	(761,137)
Total comprehensive income for the year	-	(761,137)	(3,343,878)	(4,105,015)	(819,453)	(4,924,468)
Transactions with owners in their capacity as owners:						
Shares issued during the period	2,352,116	-	-	2,352,116	-	2,352,116
Share issuance costs	(71,409)	-	-	(71,409)	-	(71,409)
Share option reserve on recognition of remuneration options	-	805,502	-	805,502	-	805,502
Acquisition (Note 12)	104,437	-	-	104,437	-	104,437
Balance at 30 June 2017	46,937,360	4,415,906	(19,139,530)	32,213,736	(1,258,930)	30,954,806

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 July 2015	33,705,941	3,566,396	(15,932,383)	21,339,954	168,028	21,507,982
Revaluation of employee retirement benefit	-	-	(28,274)	(28,274)	-	(28,274)
Profit after income tax expense for the year	-	-	165,005	165,005	(97,820)	67,185
Other comprehensive income for the year, net of tax	-	295,748	-	295,748	-	295,748
Total comprehensive income for the year	-	295,748	165,005	460,753	(97,820)	362,933
Transactions with owners in their capacity as owners:						
Shares issued during the period	11,265,712	-	-	11,265,712	-	11,265,712
Share issuance costs	(419,437)	-	-	(419,437)	-	(419,437)
Share option reserve on recognition of remuneration options	-	509,397	-	509,397	-	509,397
Acquisition	-	-	-	-	(509,685)	(509,685)
Balance at 30 June 2016	44,552,216	4,371,541	(15,795,652)	33,128,105	(439,477)	32,688,628

The above statement should be read in conjunction with the consolidated notes.

SomnoMed Limited
Preliminary Consolidated Statement of Cash Flows
for the year ended 30 June 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		49,011,553	43,061,131
Payments to suppliers and employees (inclusive of GST)		(50,677,585)	(40,846,460)
Interest received		124,235	55,935
Interest paid		(20,423)	(10,723)
Income tax paid		(1,117,450)	(154,860)
Net cash (outflow)/inflow from operating activities	10	(2,679,670)	2,105,023
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(103,932)	(1,225,752)
Payments for intangible assets		(238,857)	(99,120)
Payments for property, plant and equipment		(2,392,392)	(1,907,974)
Net cash outflow from investing activities		(2,735,181)	(3,232,846)
Cash flows from financing activities			
Proceeds from issue of shares		2,352,116	10,707,689
Share issuance costs		(71,410)	(247,437)
Net cash inflow from financing activities		2,280,706	10,460,252
Net (decrease)/increase in cash and cash equivalents		(3,134,145)	9,332,429
Cash at beginning of the financial year		17,632,252	8,305,556
Exchange rate adjustment		(287,786)	(5,733)
Cash at the end of the financial year		14,210,321	17,632,252

The cash balances at 30 June 2017 and 30 June 2016 are represented by cash at bank and money market securities.

The above statement should be read in conjunction with the consolidated notes.

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2017

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders.

2. BASIS OF PREPARATION

a. Statement of compliance

The preliminary financial report has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Standards Board and the Corporations Act 2001 as appropriate for profit oriented entities. The preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public pronouncements made by the consolidated entity during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001. Unless otherwise detailed in this note, accounting policies have been consistency applied by the entities in the group, and are consistent with those applied in the 30 June 2016 annual report.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d. Use of judgments and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.
A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of Consolidation (continued)

Business combinations

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is re-measured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

b. Income Recognition

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

Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products and services. Revenue from the sale of goods is recognised upon dispatch of goods to customers.

Other income

Other income is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

c. 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 taxation authority. 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 relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

d. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary transactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency (continued)

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

f. Financial Instruments

Derivative financial instruments
The Consolidated Entity does not currently hold, but held in the previous year, derivative financial instruments to hedge its exposure to foreign exchange risk arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives are not hedge accounted and are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the statement of profit or loss and other comprehensive income.

Non-derivative financial assets and liabilities

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Accounting for finance income is discussed in accounting policy (o).

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate based upon government bonds.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

g. Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Provisions (continued)

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rate, respective product populations and average costs of returns and repairs. Warranty periods on MAS devices are dependent on individual market and regulatory conditions in different countries.

Make good lease costs

The Consolidated Entity has an operating lease over its premises that require the premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls. A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future period, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the income statement over the life of the lease.

h. Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy (j)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement of profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date. The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

Other assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Impairment (continued)

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the statement of profit or loss as incurred.

Leased assets - 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. Minimum lease payments include fixed rate increases.

Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only.

The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	1 – 3 years
Plant & equipment	3 – 20 years
Software	2 – 5 years

j. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

k. Intangibles

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of profit or loss and other comprehensive income.

Other intangible assets

Intellectual property, acquired is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (h)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Patents	10 years	Product development expenditure capitalised	5 years

Research and development expenditure

Research and development expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

l. Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up 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.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share based payments

The Company has granted options to certain directors and employees. The fair value of options and shares granted is recognised as a share and option expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (h)).

n. Taxation

Income tax expense in the statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

o. Payables

Trade and other payables are stated at amortised cost.

p. Finance income and expense

Interest income is recognised as it accrues in the statement of profit or loss using the effective interest method.

q. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

r. Segment Reporting - Determination and presentation of operating segments

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity’s other components if separately reported and monitored. An operating segment’s operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Accounting judgment and estimates

Management discussed with the Audit Committee the development, selection and disclosure of the Consolidated Entity's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Accounting judgment and estimates (continued)

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Warranty provision

In determining the level of provision required for warranties the consolidated entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

Business combinations

Business combinations are initially accounted for on a provisional basis.

The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

t. Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

u. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

<u>AASB 9 Financial Instruments</u>

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity. As the Group is exposed to transactions around goods returned and transactions where another party is involved in providing goods (principle vs agent consideration), the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements in future periods.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity. As the Group operates its sleep centres through operating property leases, the directors anticipate that the adoption of AASB 16 will have an impact due to the amount of property leases which will be brought onto the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

w. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

x. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

• Credit risk

• Liquidity risk

• Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates. The Audit Committee oversees adequacy of the Company’s risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

4. FINANCIAL RISK MANAGEMENT (continued)

Overview (continued)

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Swiss francs (CHF), Canadian dollars (CAD), Singapore dollars (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, CAD, EUR, CHF, SGD, JPY and Philippine Peso (PHP) and South Korean Won (KRW).

Over 93% (2016-92%) of the Consolidated Entity's revenues and over 85% (2016-86%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in Australia.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of Directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

5. Events occurring after reporting date

Since the end of the financial year, the directors have not become aware of any matter that has significantly affected or may significantly affect the operations of the company in subsequent financial years.

6. Other significant information

N/A.

7. Foreign Accounting standards

N/A.

8. NTA Backing

	2017	**2016**
Net tangible asset backing per ordinary share	36.04 cents	40.56 cents

9. Earnings per Share

The following reflects the profit and share data used in the calculations of basic and diluted profit per share.

	2017	**2016**
Net (loss)/profit used in calculating basic and diluted earnings per share	($3,343,878)	$165,005
Basic profit per share (cents per share)	(6.23)	0.34
Diluted profit per share (cents per share)	(6.23)	0.32
Weighted average number of shares used in the calculation of basic earnings per share	53,657,916	48,623,946
Weighted average number of shares used in the calculation of diluted earnings per share	57,407,600	52,184,031
Shares on issue at year end per accounts	54,238,585	52,596,481
Number of options on issue at year end – each option is exercisable at between $2.35 and $3.78 per share and converts to one ordinary share	1,175,000	700,000

Adjustment has been made to the weighted average number of shares used in calculating diluted earnings per share for the options on issue that have an exercise price below the average market price for the year.

	2017	**2016**
Shares on issue at end of year	57,867,419	56,712,981
Less: Share issued but not recorded in accounts (being shares issued to executives to acquire shares in the Company utilising funds advanced by the Company)	(3,628,834)	(4,116,500)
Number of shares recorded as issued capital in Company's accounts	54,238,585	52,596,481

10. Cash flow reconciliation

Reconciliation of operating (loss)/profit after income tax to net cash outflow from operating activities	**$**	**$**
Operating (loss)/profit after income tax	(4,163,331)	67,185
Share and option expense	805,502	337,397
Impairment of goodwill	40,000	-
Impairment of capitalised development costs	-	49,843
Depreciation and amortisation	1,232,311	1,020,054
Net exchange differences	54,386	58,663
Change in operating assets and liabilities		
Increase in inventories	(343,437)	(385,100)
Increase in receivables	(2,545,227)	(736,406)
Increase in trade & other payables	1,916,121	1,476,709
Increase in provisions	819,934	205,658
(Increase)/decrease in deferred tax assets	(495,929)	11,020
Net cash (inflow)/outflow from operating activities	(2,679,670)	2,105,023

11. Segment Operations

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders primarily in the Asia Pacific region, the United States and Europe.

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Entity is managed primarily on the basis of geographical segments and the operating segments are therefore determined on the same basis.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

*Unallocated item*s

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

-derivatives and foreign exchange gains and losses;
-interest and other income;
-corporate, research and development expenses;
-income tax expense; and
-amortisation of intangible assets.

Information about reportable segments

Geographic location:	**Asia Pacific**	**North America**	**Europe**	**Total**
2017	**$**	**$**	**$**	**$**
External sales revenue	**4,004,747**	**21,296,496**	**24,025,731**	**49,326,974**
Segment net profit/(loss) before tax	**149,677**	**(2,264,051)**	**3,342,422**	**1,228,048**
Unallocated expense items				(5,095,858)
Interest received				124,236
Interest paid				(20,422)
Loss before tax				**(3,763,996)**
Income tax expense				(399,335)
Loss after tax				**(4,163,331)**

Geographic location:	**Asia Pacific**	**North America**	**Europe**	**Total**
2016	**$**	**$**	**$**	**$**
External sales revenue	**3,881,654**	**19,571,641**	**20,630,858**	**44,084,153**
Segment net profit before tax	**227,260**	**1,178,916**	**3,010,563**	**4,416,739**
Unallocated expense items				(3,971,179)
Interest received				55,935
Interest paid				(10,723)
Profit before tax				**490,772**
Income tax expense				(423,587)
Profit after tax				**67,185**

12. Fair values

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobvious inputs).

	Level 3	Total
30 June 2017		
Financial liabilities		
- Contingent consideration payable	-	-
30 June 2016		
Financial liabilities		
- Contingent consideration payable	179,695	179,695

There are no other financial instruments carried at fair value or valued using the above criteria.

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 3

The fair value of financial liabilities was estimated by discounting the remaining contractual maturities at the current market interest rate that was available for similar financial liabilities.

The fair value of contingent consideration payable in relation to the Goedegebuure Slaaptechniek B.V. acquisition was based on an assessment of budgets and forecasts resulting in the fair value for the remaining 12.5% acquisition of the business.

Contingent consideration payable	**2017**	**2016**
	$	**$**
Balance at beginning of year	179,695	1,059,575
Amount paid	(208,369)	(453,642)
Net fair value loss/(gain)	32,551	(436,508)
Foreign currency translation difference	(3,877)	10,270
Balance at end of year	-	179,695

In January 2012 SomnoMed Limited entered into a contract to acquire the Dutch oral appliance distribution company Goedegebuure Staaptechniek B.V. with an upfront payment of 50% and the subsequent 50% to be paid over a period of 5 years in four annual portions commencing in 2014. In January 2017 SomnoMed Limited made the final payment of $208,369 (EUR 143,016) with 50% in cash and 50% in SomnoMed shares (27,938 shares at the price of $3.74).

13. Intangibles

	2017 $	2016 $
Patents and trademarks – at cost	1,098,302	911,459
Accumulated amortisation	(688,114)	(642,975)
	410,188	268,484
Product development expenditure capitalised	462,944	462,944
Accumulated amortisation	(411,262)	(347,038)
	51,682	115,906
Goodwill	6,170,660	6,237,531
	6,632,530	6,621,921

Movements in patents and trademarks

	2017 $	2016 $
Balance at beginning of year	268,484	156,314
Additions	184,323	160,538
Amortisation expense	(44,916)	(48,958)
Foreign currency translation difference	2,297	590
Balance at end of year	410,188	268,484

Movements in product development expenditure capitalised

	2017 $	2016 $
Balance at beginning of year	115,906	248,297
Additions	-	15,616
Amortisation expense	(64,224)	(98,164)
Impairment	-	(49,843)
Balance at end of year	51,682	115,906

13. Intangibles (continued)

	2017	2016
	$	**$**
Movements in goodwill		
Balance at beginning of year	6,237,531	5,476,614
Goodwill arising on the acquisition of Strong Dental Ltd	-	295,256
Goodwill arising on the acquisition of 50% holding in SMH Biomaterial AG	-	311,159
Impairment of goodwill SomnoMed Korea (Refer below)	(40,000)	-
Foreign currency translation difference	(26,871)	154,502
Balance at end of year	6,170,660	6,237,531

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

In November 2013 SomnoMed acquired various intangible assets enabling it to sell SomnoDent MAS devices in the South Korean market, including registration approvals, customer information, hospital coding access and marketing materials. During the year, management undertook a review for indicators of impairment and determined that the total goodwill of $175,000 recognised in relations to the acquisition was impaired by $40,000.

Goodwill is allocated to cash generating units, which are based on the Group’s geographic reporting segments.

Asia Pacific Segment	446,159	486,159
European Segment	5,450,465	5,466,296
North American Segment	274,036	285,076
	6,170,660	6,237,531

14. Issued Capital

	2017 $	2016 $
Issued and fully paid ordinary shares		
57,867,419 (2016: 56,712,981) ordinary shares		
Balance of issued capital at the beginning of year	51,282,286	38,101,311
Shares issued during period:		
-200,000 pursuant to exercise of options at $1.23 on 25 August 2016	246,000	-
- 526,500 pursuant to issue of shares at $3.44 on 31 October 2016	1,811,160	-
- 27,938 pursuant to acquisition of subsidiary at $3.738158 on 3 January 2017	104,437	-
- 400,000 pursuant to exercise of options at $3.00 on 4 May 2017	1,200,000	-
- 112,694 pursuant to acquisition of subsidiary at $2.676 on 31 July 2015	-	301,569
- 37,779 pursuant to acquisition of subsidiary at $2.51 on 31 July 2015	-	94,899
- 838,000 pursuant to issue of shares at $2.40 on 13 October 2015	-	2,011,200
- 18,125 pursuant to exercise of options at 87 cents on 30 October 2015	-	43,500
- 18,125 pursuant to exercise of options at 87 cents on 30 October 2015	-	43,500
- 45,313 pursuant to exercise of options at 87 cents on 30 October 2015	-	108,750
- 10,000 pursuant to exercise of options at 87 cents on 30 October 2015	-	8,700
- 50,000 pursuant to exercise of options at 87 cents on 30 October 2015	-	43,500
- 200,000 pursuant to exercise of options at 92 cents on 30 October 2015	-	184,000
- 40,000 pursuant to issue of shares at $2.40 on 6 November 2015	-	96,000
- 12,454 pursuant to acquisition of subsidiary at $2.6065 on 14 January 2016	-	32,461
- 50,159 pursuant to acquisition of subsidiary at $2.5737 on 28 April 2016	-	129,094
- 1,613,983 pursuant to issue of shares at $2.50 on 16 May 2016	-	4,034,958
- 2,587,312 pursuant to issue of shares at $2.50 on 16 May 2016	-	6,468,280
Less issue costs	(71,410)	(419,436)
Balance of issued capital at end of year	54,572,473	51,282,286
Less shares issued but not recorded in accounts		
- 25,000 shares issued at 60 cents	-	(15,000)
- 125,000 shares issued at 80 cents	-	(100,000)
- 150,000 shares issued at 79 cents	-	(118,500)
- 150,000 shares issued at $1.24	-	(186,000)
- 182,500 shares issued at 58 cents	-	(105,850)
- 60,000 shares issued at 99 cents	-	(59,400)
- 942,000 shares issued at $1.18	-	(1,111,560)
- 900,334 shares issued at $1.18	(1,062,393)	
- 125,000 shares issued at $1.03	(128,750)	(128,750)
- 40,000 shares issued at $1.37	-	(54,800)
- 15,000 shares issued at $1.37	(20,550)	-
- 1,139,000 shares issued at $2.09	-	(2,380,510)
- 1,134,000 shares issued at $2.09	(2,370,060)	-
- 50,000 shares issued at $2.70	(135,000)	(135,000)
- 838,000 shares issued at $2.40	(2,011,200)	(2,011,200)
- 40,000 shares issued at $2.40	(96,000)	(96,000)
- 50,000 shares issued at $0.87	-	(43,500)
- 200,000 shares issued at $0.92	-	(184,000)
- 526,500 shares issued at $3.44	(1,811,160)	-
Total advances to executives to acquire shares in the Company	(7,635,113)	(6,730,070)
Issued share capital recorded in the Company accounts	46,937,360	44,552,216

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

At 30 June 2017 there were 4,803,834 (2016: 4,816,500) unissued ordinary shares for which options were outstanding (including 3,628,834 (2016: 4,116,500) issued ordinary shares which are treated as options in these accounts).

Audit

This report is based on accounts which are in the process of being audited.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review – Nil.

Description of dispute or qualification if the accounts have been audited or subjected to review – Nil.

Sign here: .... Date: 24th August 2017
(Director)

Print name: P Neustadt