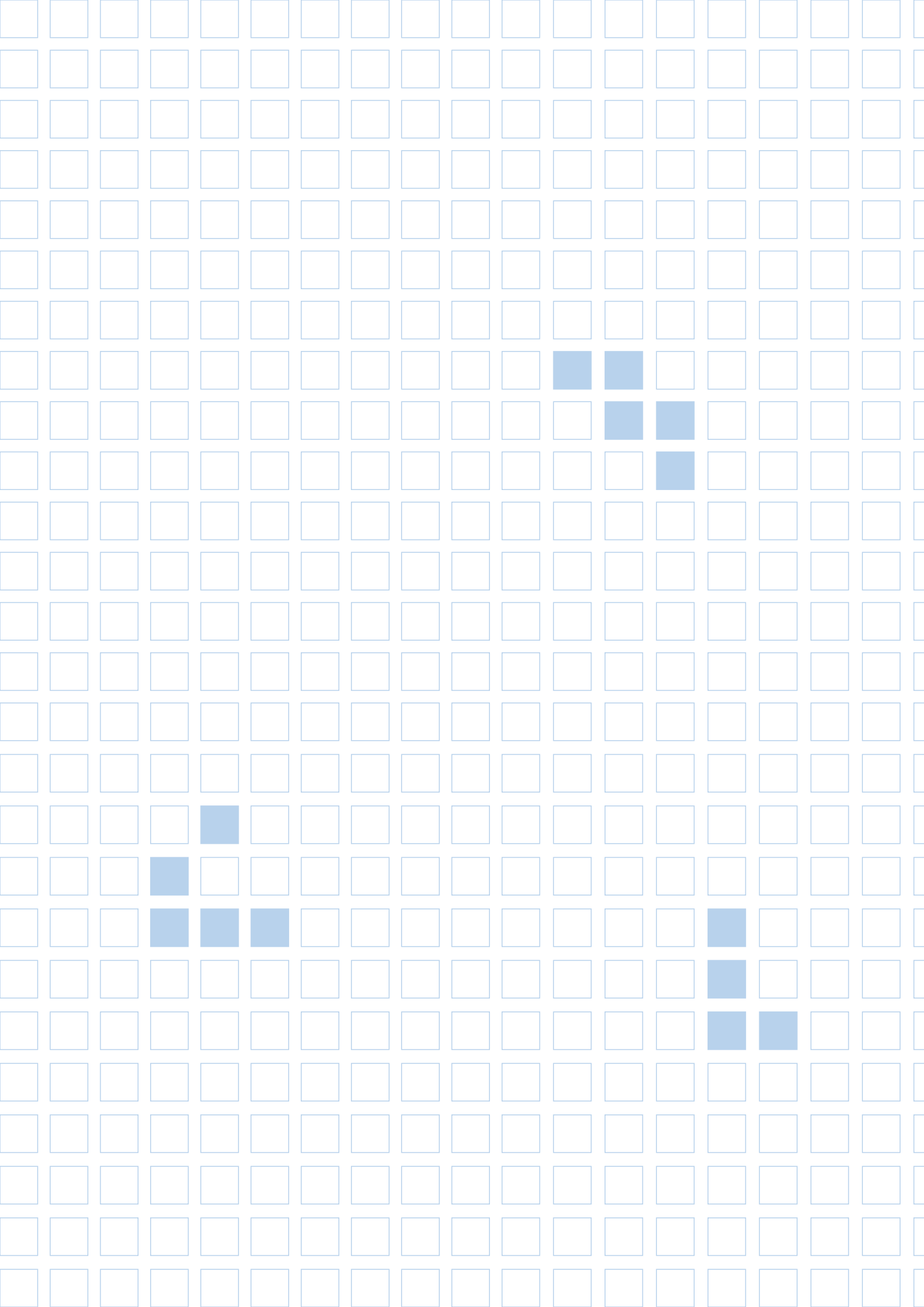




USCOM LTD

Ultrasonic Cardiac Output Monitors

ABN 35 091 028 090



USCOM LTD ANNUAL REPORT 2005

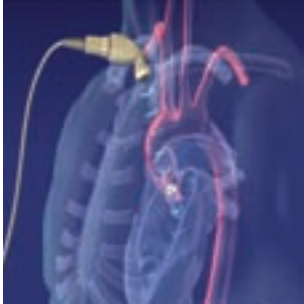
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The USCOM monitor has a place in intensive care monitoring. It is accurate, rapid, safe, well-tolerated, non-invasive and cost-effective.

*British Journal of Anaesthesiology,
February 2005*

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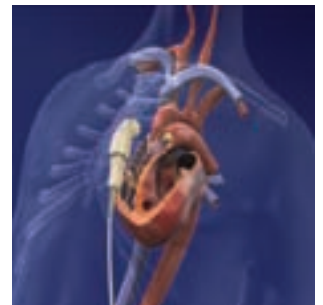
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LETTER FROM THE CHAIRMAN



“Your Directors and management are committed to aggressively pursuing the sales potential of USCOM, and we are excited about the challenges and opportunities in the year ahead.”

Dear Fellow Shareholders,

This is USCOM's second annual report since listing on the Australian Stock Exchange in December 2003.

It has been another year of tremendous progress in the company's mission to confirm the USCOM non-invasive cardiac monitor as a standard tool of medical practice. Your Directors remain convinced that USCOM will play an important role in haemodynamics management in a broad variety of clinical settings worldwide.

The company has grown significantly during FY'05. Our staff numbers increased from 14 to 23, with seven of the new personnel dedicated to sales and marketing in Australia, Europe and North America.

While science and technology continue to be an important part of USCOM's daily life, the Directors and management of the company recognise that product sales are the measure by which our performance must be judged. During the year, the company made significant steps in each of our priority markets to accelerate sales momentum, including the appointment of a direct sales force in Australia and senior Sales & Marketing management in North America and Europe. Elevating the profile of USCOM in key markets, the company was on show with sales exhibitions at 24 international medical conferences.

With almost 60 units sold worldwide to date, we know there is demand for our product. However, USCOM represents a significant change to current medical practice. Although this brings challenges and frustrations in the selling process, it also highlights the true scale of our opportunity.

Financial Performance

The company ended the financial year with \$606,548 in cash receipts from customers. Having secured the sale of 30 USCOM units, revenues were up 25% on last year.

With net operating cash outflow for the year of \$2.6 million, USCOM had \$10.5 million cash in hand at the end of June. The company has continued to carefully manage its cash resources, while at the same time, accelerating sales and marketing activity in all our priority territories.

The company has achieved many important milestones for the year ending 30 June, 2005.

North America

Among the highlights of the year was the delivery of regulatory clearance for the United States. The company received its 510K clearance from the Food & Drug Administration in February 2005 and we are delighted to report that our first U.S. customer sale was secured in July. North America represents one third of USCOM's world market, equal in size to Europe and Asia. As a result, the company is committing significant resources to the U.S. market, including the appointment of high quality senior management and the engagement of our first distribution partners there. As part of its top-down approach to clinical adoption, USCOM has aligned itself with seven leading U.S. medical institutions, as collaborative partners in Emergency Care, Paediatrics and Cardiology.

Science & Technology

USCOM introduced two ground-breaking advancements to its technology in FY 05. In March, the company released "FlowTracer™", an innovative new method of fully automating the measurement of cardiac function, a significant improvement to the user friendliness and accuracy of the USCOM system. In July 05, the company

announced the additional parameter of Systemic Vascular Resistance (SVR), an important cardiac measure based on blood pressure and cardiac output. USCOM also advanced its scientific credentials, with the presentation of seven new studies, further validating the usefulness of USCOM. Scientific papers were also published in three international peer-reviewed journals.

The company has also escalated its activities in training and education. The company has completed a custom curriculum, supported by training materials and an external education and accreditation programme with the Australian Institute of Ultrasound.

Intellectual Property

The company recognises its Intellectual Property as important assets. During the year, USCOM advanced four new patent applications, with a total of 20 applications now in various stages of implementation around the world.

Outlook for FY 06

We are off to an encouraging start to the new financial year and we are pleased to state a clear objective for the year of achieving in excess of 100 sales. The company believes it has the resources, structure and people in place to meet this exciting milestone.

Your Directors and management are committed to aggressively pursuing the sales potential of USCOM, and we are excited about the challenges and opportunities in the year ahead.



Rob Phillips, Chairman

FY '06 Objective:

100+
Monitor Sales



BOARD OF DIRECTORS



ROB PHILLIPS CHAIRMAN

Mr Phillips is the chairman of USCOM Ltd and the inventor of the USCOM method.

He is a recognised pioneer in the field of digital echocardiography and has presented scientific papers at some of the world's most prestigious cardiology conferences, including the World Congress of Echocardiography and the World Congress of Cardiology.

Mr Phillips is a Fellow of the Institute of Radiology, Head of the Cardiac Faculty of the Australian Institute of Ultrasound and is Chairman of the Cardiac Education and Standards Sub-Committee of the Australian Society of Ultrasound in Medicine.



GARY DAVEY CEO

Mr Davey is a co-founder of USCOM Ltd and acts as the Chief Executive Officer and Deputy Chairman.

Mr Davey is a seasoned business manager with managerial experience in the United States, Europe and Asia. Prior to returning to Australia in January 2000, Mr Davey had worked overseas for 19 years as a senior executive of the News Corporation in New York, London and Hong Kong and served as a member of News Corporation's Executive Committee.



ROMAN ZWOLENSKI DIRECTOR

Mr Zwolenski is a non-executive Director of USCOM Ltd. He has over thirty years experience in biomedical product development and sales.

He held senior management positions with multinational corporations in Australia and in Europe and has been CEO of two Australian ASX listed biotech product developers. Currently he is the managing director/CEO of ASX listed AMBRI limited.

Mr Zwolenski has a science degree and has been a fellow of the Australian Institute of Company Directors since 1995. He has served for more than five years as a non-executive director of several Australian public companies.



FRED BERRY DIRECTOR

Dr Berry is a non-executive director of USCOM Ltd.

Dr Berry is one of Australia's most highly respected figures in the field of Anaesthesiology and has served on numerous industry bodies and Government committees.

In addition to numerous clinical postings at major hospitals in Australia, Dr Berry's academic activities have taken him to training and teaching assignments in Europe and Asia.



LUKE FAY DIRECTOR

Mr Fay is a non-executive director of USCOM Ltd.

He brings to the company a wealth of experience in the development and marketing of medical devices. Mr Fay is a seasoned executive in the devices field, having led teams of sales and marketing professionals through Australia and Asia.

Mr Fay has held various professional roles including Councillor, Australasian Society for Ultrasound in Medicine, Chairman of the Marketing Committee of ASUM and President of the Diagnostic Imaging Association of Australia.



HIGHLIGHTS & MILESTONES

August, 2004

Corporate
Governance
policies released



September, 2004

World leader in
children's care
orders USCOM



October, 2004

St Vincent's Hospital,
Sydney buys USCOM
machine



November, 2004

USCOM proven
in helicopter
air rescue

November, 2004

USCOM appoints
senior U.S. executive

November, 2004

Regulatory approval
for Japan

December 2004

Key India site
installs USCOM



December 2004

USCOM proven
in surgery study

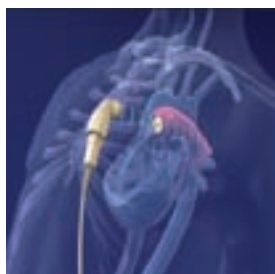
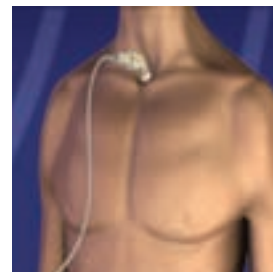
January, 2005
Cardiology partner
for U.S.



February, 2005
USCOM receives
FDA clearance

February, 2005
Emergency Care
partner for U.S.

February, 2005
U.S. Paediatrics
network announced



March, 2005
USCOM releases
Flowtracer™
breakthrough

March, 2005
Peer reviewed study
in international
journal

May, 2005
Australian direct sales
force appointed

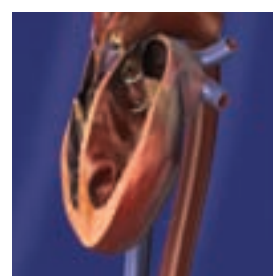
May, 2005
Europe manager
appointed

May, 2005
New distributors for
the Netherlands, Israel
and South Africa

July, 2005
Preliminary results:
Revenues up 25%

July, 2005
First U.S. sale

July, 2005
New SVR function
for USCOM



FINANCIAL HIGHLIGHTS

Revenue		Total Costs	\$3,815,004
Revenue from sales	\$480,107	Profit / (Loss)	(\$2,545,918)
Grants	150,000	Cash receipts from	
Interest	637,411	customers	\$606,548
Other	1,568	Net decrease in cash	\$2,779,716
Total Revenue	\$1,269,086	Cash in hand at 30 June	\$10,545,218

CEO'S REVIEW OF OPERATIONS



“The company is extremely proud of the quality of its people, delivering excellence in science, technology and marketing.”

The year ending 30 June, 2005 was a year of important progress for USCOM. The company has undergone significant change during the period, with an intensified focus on sales, important advancements in technology and the opening up of critical markets.

The management of the company is more convinced than ever that it is on the right track for tremendous growth in the future.

Sales

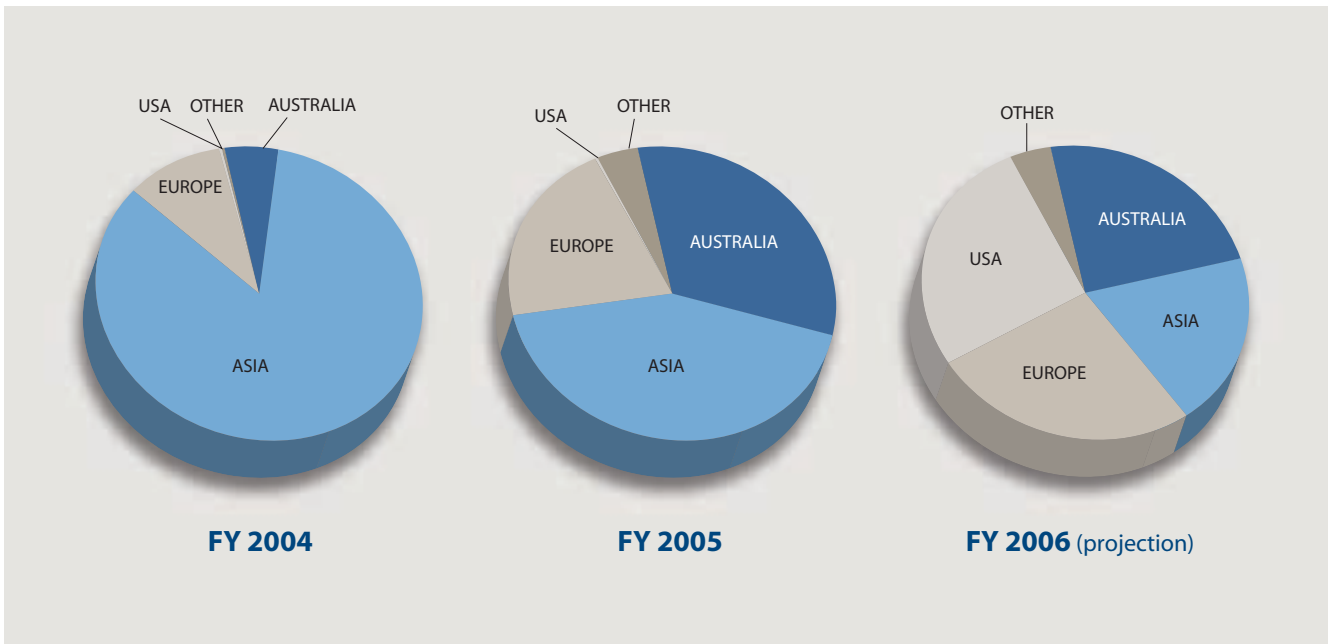
During FY '05, the company recorded a total of 30 unit sales worldwide. Revenues from sales of \$480,107 were up 25% on last year.

In the second half of the year, per unit revenue increased by more than 50%, reflecting an increased proportion of sales to end users as opposed to sales to dealers and distributors.

The USCOM device is now in clinical use at hospital sites in nine countries in Australasia, Asia, Europe and now the United States.

The profile of USCOM's customer base is changing fundamentally. In FY 2004, the company was highly reliant on the Asian markets, which represented 76% of revenues from sales. However, FY 2005 delivered a broader base of customers with significant growth in sales in Australia and Europe.

With a projected goal of in excess of 100 unit sales worldwide for FY 2006, the United States is emerging as our largest potential market. Australia, Asia, Europe and the US each constitute approximately one-quarter of our full year target.



Since the end of the financial year, USCOM has announced its inaugural sale in North America, the company's largest single market. The first U.S. sale was to the Orlando Regional Medical Centre in Orlando, Florida. The company has begun the process of appointing distribution partners for the U.S. market, with the first appointment covering the South Western states. Further appointments for the remainder of the U.S., as well as Canada, are currently under negotiation.

Sales Strategy

USCOM manages a network of distribution partners around the world, drawing on the experience and contacts of established and proven sales organisations. Our worldwide distribution network expanded during the year with the addition of outstanding new partners for South Africa, the Netherlands and Israel.

In Australia, the company took a strategic decision in FY 05 to create a direct sales force to work alongside distribution partner, Coefficient Systems. This strategic shift is already proving successful with a further three unit sales in Australia prior to the end of the financial year.

Staff and Management

The USCOM team grew from 14 to 23 during FY 05. Seven of the nine new members of staff are dedicated to sales and marketing activities, reflecting the company's focus on its sales objectives.

The senior management team of Gary Davey (Chief Executive Officer), Rob Phillips (Chairman and Chief Scientist) and Paul Butler (General Manager) continued to manage the business, science and operations of the company. Day to day activities are supervised by Paul Butler through the company's Sydney head office.



Paul Butler

Australia

An important focus for USCOM in Australia is the company's role in regional health care. Rural hospital sites, with tight restrictions on people and equipment, have embraced the USCOM method enthusiastically.

USCOM is now in use at five regional sites in New South Wales, Queensland and Victoria. One compelling case study is Broken Hill Base Hospital, providing care for the Far West Area Health region, a land mass representing one-third of the state of New South Wales and twice the size of England.

At Broken Hill, the USCOM purchase was cost justified within 30 days, by reducing the number of critically ill patients who needed to be air transferred in a 400 kilometre journey to Adelaide. (For further information, please see "In Conversation with Dr Brendan Smith")

The company took a strategic decision in early 2005 to commit to the appointment of a direct sales force in Australia. As a result, five additional senior Sales & Marketing Executives were recruited, covering customer needs in Brisbane, Sydney, Melbourne and Adelaide.

In Melbourne, the company has appointed Mr Peter Halaseh MBA, BSc, a 17-year veteran of hospital products sales, with responsibilities for Victoria.

In Brisbane, Mr Chris Aitken, a qualified intensive care nurse and highly experienced in medical equipment sales, joins the company with responsibility for Queensland.

Also in Brisbane, Ms Jacqui Wilkinson, with extensive experience in capital equipment sales to hospitals as well as a clinical background in intensive care and surgical nursing, has joined the team.

In Sydney, Mr Mark Thomas, highly successful in sales across multiple hospital departments, takes responsibility for the New South Wales region.

The company is delighted with the early indications from the new direct sales force, with three new orders recorded during June from New South Wales, Queensland and Victoria.

Training & Education

As a key part of its sales mission, the company is committed to developing sophisticated training and education programmes for customers and users. USCOM has completed a custom training curriculum, supported by educational materials in printed and digital form.

The company has also established a relationship with the Australian Institute of Ultrasound for external education and accreditation of USCOM users. This provides for independent recognition of USCOM operational competence and is an important development for the adoption and effective use of the USCOM device in clinical practice.

In addition, the company has augmented its training and education effort with the release of video materials incorporating broadcast quality 3-D computer animation. This provides a visual step-by-step guide to the operation of USCOM as well as a graphic illustration of the human cardiovascular system.



Peter Halaseh



Chris Aitken



Jacqui Wilkinson



Mark Thomas

Asia

The Asian markets, especially in North Asia, continue to be a key priority for USCOM.

During FY '05, a total of 17 USCOM monitors were sold into the Asian region.

In the early part of the year, volume sales were confirmed with distribution partners in Japan, Korea, China, Taiwan and India, in most cases well in advance of final regulatory approval. During the first half of the year, the majority of sales in this region were sales to dealers or distribution partners. However, as the year progressed many of these early sales were converted into customer installations at hospital sites.

For example, in China, USCOM's Shanghai-based distribution partner for the Eastern region has secured four hospital installations, including the Chinese Traditional Hospital in Hangzhou, where two USCOM machines are in use in the Emergency and Cardiology departments.

With regulatory approval now in place in all but Taiwan, we anticipate significant growth in sales across all of the Asian markets.

Intellectual Property

The company is committed to aggressively defending and expanding its portfolio of Intellectual Property, as core assets of the company.

USCOM has approximately 20 separate inventive ideas in various stages of progression through the patent system.

The company achieved an important strategic milestone in August 2005 with the publication by the U.S. Patent Attorney's Office of the company's patent for OXYCOM™, a combination of cardiac output and oxygen saturation. This is the basis for the company's second major product, the OXYCOM™ Monitor, due for commercial release in 2006.

The patent process at USCOM proceeds along the basis of identifying new ideas, which are of substantial commercial benefit to the company and filing an initial provisional patent application to obtain world wide priority rights for the ideas.

Subsequently, in accordance with normal patent procedures, after a 12-month period of refinement and commercialisation, an analysis is conducted of the core value of the idea. At the end of the 12-month period, either a PCT application or foreign filing applications ensue. During the year, four patent applications were developed. Various other historical applications proceeded along the paths to protection in various jurisdictions. To date, no objections have been received to impede the progress of the applications, and it is therefore expected that the applications will proceed to grant without incident.

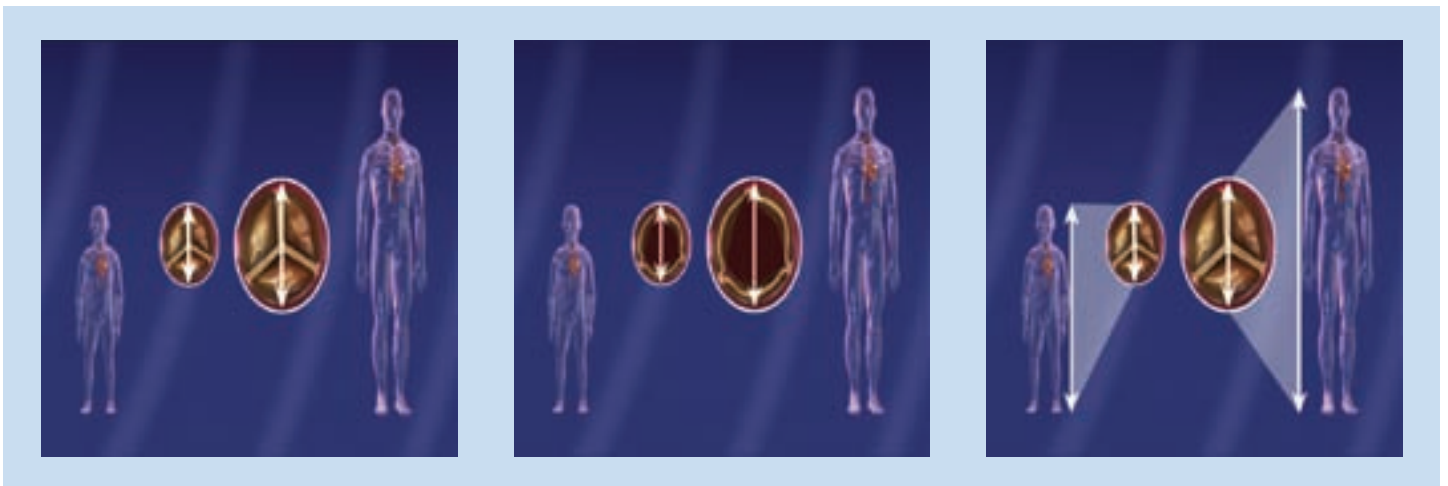
Regulation & Corporate Governance

The company continues to expand its global reach. In addition to the FDA milestone in the United States, the company also received regulatory approval in FY'05 for Japan and Korea, two of the biggest USCOM markets in Asia.

The company is currently working through procedures for regulatory clearance for Canada and Taiwan.

In August 2004, the company released its Corporate Governance policies. Beyond our obligations as an ASX listed company, we consider these policies, including the Code of Conduct, as cornerstones of the company culture. Our Corporate Governance policies are incorporated in this report.

We are pleased to confirm there were no breaches of our regulatory obligations, Corporate Governance standards or Quality Systems during FY'05.



IN CONVERSATION WITH DR BRENDAN SMITH



Area Clinical Director of Anaesthetics and Critical Care, Far West Area Health Service, Broken Hill, New South Wales

Dr Brendan Smith's duties cover a land mass twice the size of England. Dr Smith first acquired an USCOM cardiac output monitor in May 2004 to assist in the management of critically ill patients and to reduce the number of patients who had to be flown 400km south to Adelaide for further assessment or treatment. The investment in USCOM was returned within the first month of operation, by cutting the number of flights from eight per month to two per month.

Dr Smith and his team have since assessed more than 800 patients with the USCOM monitor.

Q: Tell us about your experience with USCOM

We've been using the USCOM now for about 18 months. Initially we saw it as predominantly an intensive care tool. We have come to realise in fact the majority of our patients are not intensive care patients and we are now using USCOM with out-patients and general medical patients much more than we do in intensive care. We have also moved USCOM into the operating theatre, where it (cardiac output monitoring) has become a routine measurement in the operating theatre.

Q: What cases are you using it in general practice?

Probably our biggest single use now is in patients on the medical ward. Patients who have been admitted with either cardiac problems, cardiac failure and increasingly in patients where the diagnosis isn't clear. Sometimes it is not all that easy to separate say cardiac problems from pulmonary problems. Has a patient got pneumonia? Has a patient had heart problems? Sometimes it is not that clear clinically but by doing an USCOM, suddenly the whole diagnosis changes.

Q: So you are using it for diagnosis and intervention?

Very much so. I think that is probably USCOM's biggest use now from the purely anaesthetics critical care point of view. The initial diagnosis is important but then to guide treatment. That's where it is really coming into its own. On the medical wards we tend to use it purely as a diagnostic tool but in theatre and in ICU it has become much more a treatment guiding tool.

Q: How has it helped your routine overall?

I think I would have to say it has transformed it. But in a funny sort of way it has transformed it back to the way it should be. There is a lovely story I read about Picasso who said that he spent the first 20 years of his life learning to paint like an adult and then he spent the last 10 learning to paint like a child again, and for us it has been a similar journey. We get cleverer and cleverer at determining cardiac output by clinical clues and then suddenly we have been able to go back to the very fundamental basic haemodynamic parameters because now we can measure them which we never could, well at least not easily.

Q: Is it easy to use?

Oh, it is a piece of cake. It is quite literally child's play to use. My grand daughter is six years old and she can use it. It really is child's play.

Q: How did you measure Cardiac Output before USCOM?

The bottom line is we very seldom did. We only measured cardiac output with any kind of reliability using pulmonary artery catheters. Now you are always mindful that you are going to kill one in 13 of the patients that you put a pulmonary artery catheter in. So you use it very, very selectively and only really when you have no choice but to use it. It is certainly not something you would ever dream of doing as a routine and even then it's becoming clear to those that have done a lot of catheterisation that in fact it's not a gold standard, it is probably a silver standard. So are you going to take that gamble to get those numbers in every patient? Well no of course you are not, so you reserve it for that very few where probably you have missed the boat already.

Q: How has USCOM impacted on your clinical practice?

I'd have to say it's transformed our clinical practice. In my 25 years in anaesthetics there have probably been three or four major developments. The pulse oximeter, the development of MRI scanning and I think this is right up there with those. It has brought about a very fundamental change in the whole way we think about anaesthetics and intensive care and critical care simply because we can now go back to the very basics of physiology that we could never do before.

Q: What is the greatest advantage from your point of view?

I think the biggest single advantage is that you can do it completely non-invasively. It is harmless to a patient and the fact that it is so easy to use as well means that you use it over and over and over again. The more you use it the more uses you find it has actually got, the more surprises you get.

Q: What is your opinion on its accuracy?

I would have to say I think its accuracy from our work is better than 95% accurate which is way beyond anything we have ever had before with a possible exception of a full Fick principal measurement, which is really a laboratory set up. In terms of clinical medicine, such as pulmonary artery catheters, we're talking maybe 80 – 85% accurate. Now that may seem okay but it is actually no use at all clinically if you can't rely on that number. Now, when you have got a device that is 95–96–97% accurate and I think we're in that sort of ball park, then you can believe the diagnosis, and it's sensitive enough to pick up even minor changes to guide treatment. So you get down to some very subtle work in therapy.

Q: Is USCOM improving patient outcomes?

Oh, no question at all. This machine is saving lives, there are no two ways about it. We have so many cases now where not only has it made the treatment that much more rational and that much easier and quicker to do which is crucial. The quicker you treat it the better the outcome. It has actually completely changed diagnosis in some cases. We've had patients who were initially thought to be say pulmonary embolus but in fact turned out to be septic and within two minutes on an USCOM it was clear that the diagnosis was wrong. Had we not made that diagnosis the patient would have died. It is that simple.

Q: Is USCOM useful in managing fluid levels in the patient?

Indeed and we can do that literally on a beat-to-beat basis. We can put the transducer on, watch the stroke volume and as we run the drip, we can see the stroke volume going up and up with each beat. Then it will stop going up and you will see it just begin to go down. But the moment it begins to go down, that is when our fluid replacement is right, whatever volume that happens to be.

Q: So it is taking the guess work out?

Exactly, exactly. And I think we can now say the only way to optimise preload is to measure the stroke volume. Anything else is guess work, educated guess work perhaps, but it is still guess work. Now, with USCOM, the guess work is gone.

“This machine is saving lives, there are no two ways about it.”



North America

The United States, being USCOM's single biggest potential market, has occupied the company's focus during the past 12 months. The company received its Food & Drug Administration (FDA) 510k clearance in February 2005.

In July 05, the company reported its first customer sale in the U.S. market.

The first sale was to the Orlando Regional Medical Centre in central Florida. The hospital is at the centre of the Orlando Regional Healthcare System, a network of eight hospitals, providing almost 1,600 hospital beds.

The USCOM machine is in use at the Hospital's Trauma & Medical Intensive Care Unit. The order was placed by the Director of the Medical ICU, Dr Edgar Jimenez, who is supervising the deployment of USCOM, along with Dr Jeff Sadowsky (pictured).

The Orlando sale was a critical milestone for USCOM. The company anticipates steady growth in the sale of USCOM machines across the U.S. during FY '06.

As part of its commitment to the U.S. market, the company has appointed senior management there. The USCOM team is led by Mr Barry Zakar, a 25-year veteran of the U.S. medical devices industry. As Director of Operations, North America, Mr Zakar is responsible for all the company's activities in the territory, with a particular focus on sales and marketing. Mr Zakar had been working for USCOM on a consultancy basis until taking up his full-time executive position in November 2004.

Supporting Mr Zakar is Ms Julie Sloniger, who has joined USCOM from the University of Arizona Medical Centre in Tucson, Arizona. Prior to joining USCOM, Ms Sloniger was Clinical Research Coordinator for Cardiothoracic Surgery at the Tucson centre.

In addition to her marketing responsibilities, Ms Sloniger is also responsible for the supervision of USCOM's clinical research in the U.S. and relationships with the company's collaborative partners.

USCOM has established a network of seven key collaborative sites across the U.S., focusing on the priority sectors of Emergency Care, Paediatrics and Anaesthetics.

With Emergency Care a key priority for USCOM, the company is working closely with clinicians at four leading sites, including the renowned Henry Ford Hospital in Detroit, birthplace of the ground-breaking Rivers' paper. This study represents a turning point in the adoption of Early Goal Directed Therapy, proving that patient outcomes improve and money is saved when haemodynamics is optimised early in the management of the patient.



Dr Jeff Sadowsky MD (left) and Dr Edgar Jimenez MD, Director Medical ICU, Orlando Regional Medical Centre, Orlando, Florida

USCOM is proud to have Dr Emanuel Rivers, the lead author of the paper as moderator of a major USCOM event later this year. USCOM is hosting a special satellite symposium, featuring five luminary speakers, including Dr Rivers, at the American College of Emergency Physicians (ACEP) conference on September 25 in Washington, as a high profile launch to the USCOM North American marketing effort.



Barry Zakar



Julie Sloniger

As part of its U.S. marketing campaign, the company released the results of a survey of emergency physicians in the U.S., highlighting the demand for a non-invasive method of measuring cardiac output. The survey found that 93% of emergency department (ED) clinicians thought an accurate, non-invasive cardiac output monitoring method would be somewhat or very useful in their practice among adults. Yet, the vast majority were measuring cardiac output on less than 10% of their patients:

- Nearly 90% of respondents do encounter patients in which they could use cardiac output (CO) data, but this need does not justify use of invasive methods to obtain it.
- 90% of respondents employ CO measurements on fewer than 10% of their adult patients.
- Nearly 100% of respondents employ CO on fewer than 10% of their paediatric patients.
- Only 21% of respondents are very satisfied with their current CO measurement method – most (69%) are only somewhat satisfied.
- Nearly 90% of respondents believe there could be a cost saving with the use of a non-invasive CO measurement method compared to invasive methods.
- Some 93% of respondents believe that an accurate, non-invasive CO measurement method would be somewhat to very useful to them in adults.

The survey confirms that emergency physicians need cardiac output information for optimal patient management, but they often manage patients without this information due to limitations of the existing methods. These results are an exciting validation of the USCOM concept.

U.S. Distribution Strategy

As in other parts of the world, the company believes the appropriate structure for the market is through a network of third party distribution partners. While our relatively small U.S. management team will secure direct sales from time to time, the company does not intend building a significant direct sales force in North America. The company is identifying suitable partners with proven track records in sales to our priority market sectors of Emergency Care and Paediatrics.

The company has appointed its first representative partner for the South Western States. San Diego based representative firm, Jack Redman & Associates, has been engaged to cover California, Arizona, Nevada and New Mexico. Texas, Oklahoma and Louisiana are also being covered by a sub-representative, based in Dallas, Texas. Similar arrangements are currently in discussion for other parts of the United States as well as Canada.

Europe

The company is committed to aggressively pursuing business in the UK and European markets, which represent one-third of USCOM's worldwide potential.

During FY 05, the company secured the sale of five USCOM machines in Europe, one in Switzerland, one in the Netherlands and three in the United Kingdom.

Two of these sales were important strategic sales, being installations at internationally recognised centres of excellence in the care of children. In April 05, USCOM was installed at the Department of Neonatology at the University Hospital of Zurich, an important European centre for Paediatric and Neonatal medicine.

In addition, the company is collaborating with the renowned Great Ormond Street Hospital in London, an USCOM site since September 2004. We are working with Dr Joe Brierley at Great Ormond Street on demonstrating USCOM's role in the management of sick children.

(For further information, please see *"In Conversation with Dr Joe Brierley"*).

In Germany, the company continues its work with Dr Karsten Knobloch at Hannover University Hospital on a wide range of applications, including critical care, helicopter retrieval, ambulance transfer and sports medicine.

In May 2005, the company appointed Ms Ali Hughes-Jones to lead the company's marketing effort across Europe, including the responsibility for managing relationships between USCOM and its network of European distribution partners. Ms Hughes-Jones, a qualified radiographer, has 13 years experience in the marketing of medical devices to the critical care market in Europe. Most recently, Ms Hughes-Jones was a senior executive with Deltex Medical, a UK-based company which specialises in Doppler ultrasound methods for the measurement of cardiac output. At Deltex, Ms Hughes-Jones held the positions of UK Sales Manager and Director of Clinical Development.



Ali Hughes-Jones

IN CONVERSATION WITH DR ROBERT BILKOVSKI



Senior Staff Physician in Emergency Medicine, Associate Research Director, Department of Emergency Medicine, Henry Ford Hospital, Detroit, Michigan

Dr Bilkovski is a member of an internationally recognised team leading the field of Early Goal Directed Therapy (EGDT) in emergency medicine. Dr Bilkovski's colleague, Dr Emanuel Rivers was the lead author of a ground-breaking paper (Rivers et al) which demonstrated the benefits of EGDT, reducing both mortality and patient management cost. The work at Henry Ford Hospital led to the launch of an international programme called the Surviving Sepsis Campaign, a coordinated implementation of the EGDT concept to combat Severe Sepsis and Septic Shock. It is estimated that 18 million people a year are diagnosed with sepsis and 30% of them die. In addition to the extremely high mortality from sepsis, the cost of managing and treating the disease is estimated at \$17 billion a year, in the U.S. alone.

Dr Bilkovski's team in Detroit is conducting important work on USCOM's application in the Emergency Department and its potential role in the worldwide adoption of Early Goal Directed Therapy.

Q: What is your involvement with USCOM?

I am the lead investigator at Henry Ford Hospital. We are a luminary centre with USCOM and I am a principal investigator in a validation study using the USCOM to measure cardiac output in the intensive care unit environment. We are evaluating the USCOM in its abilities to measure cardiac output and comparing it to what we would consider industry standard references.

Q: What roles can you see USCOM having in the future?

To be perfectly honest I think it's as far as the mind can think. Right now, I'd say there are at least five different things that we're looking at for benefits. One is for resuscitative benefits, namely with say congestive heart failure, to verify whether or not you can identify abnormal contractility or you can actually identify a response to therapy depending on what type of agents you give. Right now, we are providing agents for heart failure and we're sort of going blindly from a haemodynamics stand point. Another is being able to predict outcomes. The USCOM has the benefit that there is no invasive approach required.

Q: What about outside the ER?

Oh, I think the application of the USCOM in clinical medicine is not limited only to Emergency Medicine. The Intensive Care Unit, Anaesthesia, Surgeons, Paramedics, I think it is limitless. I mean even extending it all the way down in to the community hospitals and in to the clinics for people who have long standing heart failure or the like. It's possible that it could be used all the way out in to the ambulatory care setting.

Q: What's the single most important benefit?

The biggest benefit of the USCOM device is that it really is a bedside device that provides cardiac output in real time. It can gauge your therapy precisely with accuracy but even more important in the bigger picture is the utility of trend analysis. Looking back and seeing how the heart rate responds or the body responds to challenges. That, I think, is one of the greatest developments of the USCOM design.

IN CONVERSATION WITH DR JOE BRIERLEY



Paediatric Intensive Care Consultant, Great Ormond Street Hospital, London

Great Ormond Street Hospital is an internationally recognised centre of excellence in the care of children. Founded in 1852, Great Ormond Street Hospital manages more than 90,000 patients per year. The hospital purchased an USCOM monitor in September 2004 and has been conducting a series of important studies on USCOM's role in the management of sick and injured children, both in the hospital and in ambulance transfer.

Dr Joe Brierley is the lead investigator in the USCOM studies.

Q: What is your experience with the USCOM device?

I first came across the USCOM device about 18 months ago. I had the opportunity to look at it and think about it and thought, well if we can truly get something that is absolutely non-invasive, that would be fantastic. The other thing that hit me straight away was the range of potential applications. You know, for kids if they are awake or slightly aware, sticking tubes down their throats is not acceptable at all. USCOM gives us a huge opportunity to do lots of haemodynamic work in children who aren't too unwell and even normal children to get a better understanding of normal values.

We have lots of data telling us that early haemodynamic intervention in paediatrics does improve outcomes. And the ability to get a device on a child who has actually just come into hospital, maybe showing early signs of septicæmia, and get accurate data has to be a major advantage to us.

Q: Let's talk about the role in retrieval.

I think retrieval medicine is a huge area and becoming even more important in paediatric practice. I have taken the USCOM device on retrievals, as a way of getting the kind of intensive care environment out to a child as quickly as possible. Part of that is the haemodynamic work and trying to get rapid resuscitation going.

I think getting the USCOM device out and being able to monitor the child as you come back to the hospital is really useful. You can do very simple measurements in a very inaccessible environment repeatably and we've shown that with the studies we have done.

We have a device being used by nursing staff and registrars, and it seems to be relatively easy to get that learning curve sorted out and the device really is useable. It is no good having something that is validated, fantastic and no one can use the thing and I think that is hugely important.

Q: Where do you see its future?

I am obviously in a high intensity speciality where we use a lot of equipment so USCOM seems to fit right in to what I do. There is a huge number of other potential roles in paediatric medicine. Looking at children who walk in through the door, smile at you, yet they have problems of heart function, you can measure this very, very easily.

Better haemodynamic optimisation in early sepsis in children may prevent some needing to come my way at all and so I hope making early changes in the management of cardiac output may improve outcomes. That is the future.

Science and Technology

USCOM is proud of the innovation and quality of its technology. The original USCOM 1A monitor, completed in mid 2003, has proven to be a robust and stable hardware platform on which to base the evolution of the USCOM technology family.

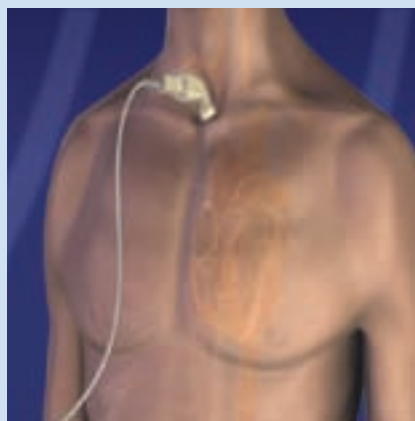
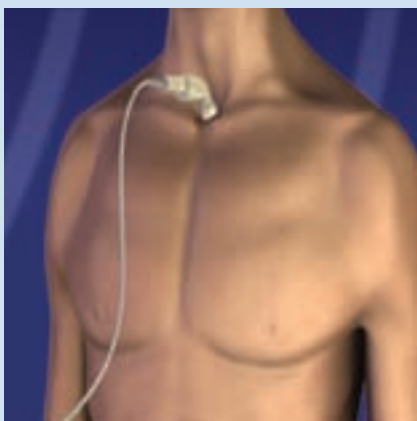
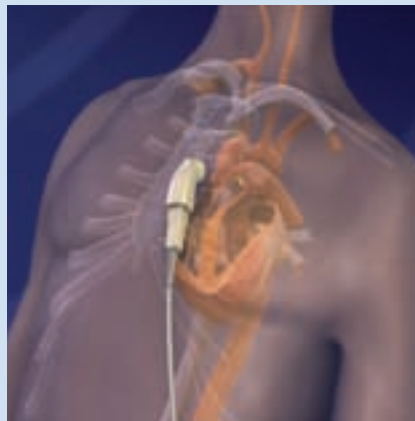
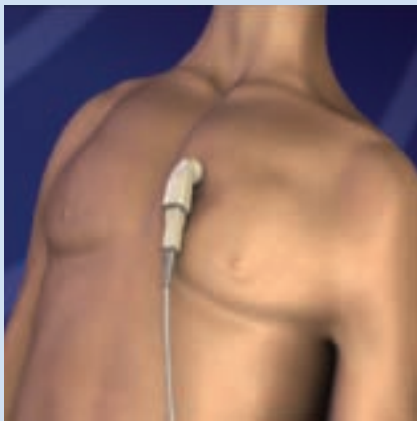
The company has since released six software upgrades, providing numerous advancements to the operating system and application of USCOM, all the work of the company's engineering team based at USCOM's head office in Sydney.

In August 05, we were proud to announce details of the second USCOM product, due for commercial release in 2006.

During the past year, the company launched two extremely important new functions and unveiled a third for release in 2006.



Nick Schicht, Technical Manager



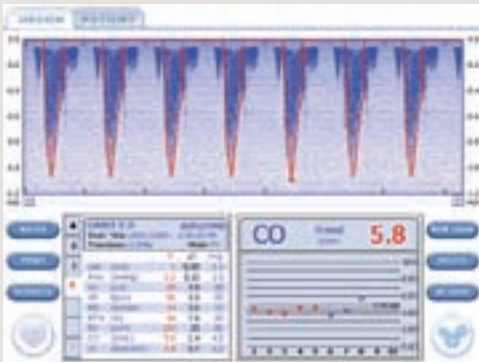
USCOM has augmented its training and education effort with the release of video materials incorporating broadcast quality 3-D computer animation. This provides a visual step-by-step guide to the operation of USCOM as well as a graphic illustration of the human cardiovascular system.

1. FlowTracer™

In March 2005, the company unveiled "FlowTracer™", a breakthrough in automatic signal measurement.

The "FlowTracer™" system provides an extremely accurate tracing of the live cardiac flow profile, displaying precision measurements in real-time. This fully automated measurement system dramatically advances the speed, simplicity and efficiency of the USCOM system.

The "FlowTracer™" software eliminates the need for manual measurement. Until now, USCOM has used its unique semi-automated "TouchPoint™" system for capturing precision flow data. The new system now provides for one hand operation. Detailed information across nine parameters of cardiac function can be stored with the touch of a single button.



2. Systemic Vascular Resistance (SVR)

In July 2005, the company released an innovative method for real-time calculation of beat-to-beat Systemic Vascular Resistance (SVR), a cardiovascular measure relating to cardiac output and blood pressure. The addition of SVR to the USCOM system dramatically improves clinician's ability to understand the haemodynamic triad of preload, cardiac output and afterload, allowing for beat-to-beat assessment of patient condition and response to therapy. Real time readouts of the numbers physicians need to optimise haemodynamics will help to improve management and outcomes.

The new feature is the product of over 12 months of research and development by the USCOM engineering team and confirms the innovative USCOM culture and commitment to continuing development of practice leading technology.



3. OXYCOM™

In addition, the company announced in August 05 its plan for the 2006 release of its second product, the OXYCOM™ Monitor.

This new product, now in technical development, is the novel combination of high resolution cardiac output flow measurements, using the patented USCOM method, and non-invasive oximetry.

This combination provides real time, non-invasive beat-to-beat measures of the volume of blood delivered by the heart and the oxygen concentration carried by the blood, and effectively measures tissue perfusion or oxygen delivery.



VALIDATION STUDIES

Introduction

During the course of FY '05 the science of USCOM was further advanced with the presentation of seven new clinical studies and the publication of three peer-reviewed papers in respected international journals.

The on-going validation of USCOM is an essential part of the path to medical adoption.

This year's studies covered a wide range of subjects, including two new comparisons to the gold standard thermodilution method, USCOM in patient retrieval, helicopter air rescue, routine surgery, comparison to measurements from an artificial heart and the role of USCOM in heart pacing.

USCOM Presents at Cardiac Society Conference

August, 2004

An important paper was presented to an international cardiology conference in Brisbane on the applications of the USCOM monitor in heart failure. The study, presented at the 2004 Annual Scientific Meeting of the Cardiac Society of Australia and New Zealand, was conducted at the Cardiac Transplant unit of Royal Perth Hospital, where the USCOM monitor was compared with the highly invasive thermodilution method of measuring cardiac output. The study found the USCOM measurements compared favourably with the catheter measurements.

USCOM in Retrieval

September, 2004

A study conducted at the world renowned Great Ormond Street Hospital was presented at the European Society of Paediatric and Neonatal Intensive Care Conference in London.

The study, conducted by Dr Joe Brierley from the hospital Paediatric Intensive Care Unit, assessed the USCOM machine during the retrieval of sick and injured children. Junior clinicians were asked to use the USCOM device both during ambulance delivery and in the Intensive Care Unit upon arrival. Acceptable, reproducible signals were recorded by all three junior doctors during and after retrieval. None of the doctors had been previously familiar with Doppler ultrasound techniques.



USCOM Proven in Helicopter Air Rescue

November, 2004

USCOM announced the presentation of a scientific study demonstrating the role of the non-invasive USCOM technology in helicopter air rescue. The paper was presented at a government sponsored Air Rescue conference in Bavaria, Germany, where the study was cited for its unique and novel approach to emergency medicine. The study was conducted by Dr Karsten Knobloch from the Hannover University Hospital Medical School, who had previously presented research to show USCOM's accuracy in measuring cardiac output, compared to the gold standard Pulmonary Artery Catheter method. Dr Knobloch used the portable USCOM machine to manage 24 critically ill patients, ranging in age from 17 months to 92 years.

USCOM Proven in Routine Surgery

December, 2004

A study proving the feasibility of using the USCOM technology during general surgery was presented to the National Conference of Anaesthetics in India. The presentation was made by Dr Anthony Parakkal from the Broken Hill Base Hospital. In his presentation, Dr Parakkal described the limitations of existing methods for anaesthetists in the operating room stating, "Physicians have been forced to make do with indirect indices such as blood pressure, pulse rate, urine output and skin temperature to make an educated guess as to the Cardiac Output (CO) when managing patients." Dr Parakkal said, "The advent of an entirely non-invasive method of measuring CO (USCOM) suggested that routine

CO monitoring during general surgery could be a feasible proposition." In their study, the Broken Hill anaesthetics team used the USCOM monitor during 25 cases in general surgery, orthopaedics and gynaecology, with cardiac output measurements taken pre-operatively, after induction and then at regular intervals during the procedures.

USCOM Validated Against Invasive Method

January, 2005

New research was presented confirming the accuracy of the USCOM cardiac output monitor when compared to the established invasive method. The study was presented at the 2nd Asian Pacific Congress of Heart Failure (APCHF) in Singapore. The study was conducted at the Advanced Heart Failure and Cardiac Transplant Unit at Royal Perth Hospital, where the USCOM system was compared to the gold standard thermodilution catheter method, with 83 paired data sets from 15 patients. The study concludes, "The USCOM is a non-invasive device that has good agreement with invasive measurements over a wide range of relevant cardiac outputs."

New Accuracy Study Released

March, 2005

USCOM released the findings of a study, conducted in the U.S., further demonstrating the accuracy of the USCOM non-invasive cardiac output monitor. The study was conducted at the University of Arizona Medical Centre, where measurements were made in patients with an implanted CardioWest Total Artificial Heart device. The CardioWest consists of a pneumatic blood pump delivering measured pulsatile flow to an implanted artificial heart. As it is not feasible to place flow probes chronically in humans, the CardioWest patients were chosen because the circulation could be mechanically controlled and accurately measured. In an IRB approved protocol, 461 paired measurements were analysed from 11 examinations of four adults, in whom the CardioWest pump was mechanically varied to create a range of Cardiac Outputs. There was good correlation of Cardiac Output, Stroke Volume and Heart Rate measures by both methods without significant difference. The study concludes, "This study confirms both the accuracy of flow measurements using the USCOM device, and the feasibility of obtaining reliable non-invasive cardiac output and other parameters on patients in a clinical setting."

USCOM'S Role in Heart Pacing

May, 2005

A study by one of the world's leading authorities on heart pacing, Professor C.P. Lau, was presented at the Heart Rhythm 2005 conference in New Orleans. The study, conducted at Queen Mary Hospital in Hong Kong found that USCOM allows rapid assessment of timing intervals without the need for specialised echocardiography machines and personnel.

This is the second study conducted by Professor Lau demonstrating a useful role for USCOM in the optimisation of heart pacemakers.



PUBLICATIONS



Anesthesia & Analgesia

March, 2005

Critchley, L.A., Peng, Z. Y. & Fok, B. S. Testing the Reliability of a New Ultrasonic Cardiac Output Monitor, the USCOM, by using Aortic Flowprobes in Anesthetized Dogs. *Anesthesia and Analgesia* 2005;100:748-53.

A major USCOM study, proving the accuracy of its non-invasive cardiac monitor, was published in one of the world's most prestigious

international medical journals. The paper, entitled: "Testing the Reliability of a New Ultrasonic Cardiac Output Monitor, the USCOM, by Using Aortic Flowprobes in Anesthetized Dogs" was published in the March 2005 edition of the U.S.-based *Anesthesia & Analgesia*.

The lead author of the study is Dr Lester Critchley, Associate Professor at the Department of Anesthesia and Intensive Care at the Chinese University of Hong Kong. Dr Critchley is a world authority on methods for measuring cardiac output and has been conducting research into the USCOM method since early 2003.



British Journal of Anaesthesiology

February, 2005

Tan, H. L., Pinder, M., Parsons, R., Roberts, B. and van Heerden, P.V. Clinical Evaluation of USCOM Ultrasonic Cardiac Output Monitor in Cardiac Surgical Patients in Intensive Care Unit. *British Journal of Anaesthesia* 2005 94(3):287-291.

"The USCOM monitor has a place in intensive care monitoring. It is accurate, rapid, safe, well-tolerated, non-invasive and cost-effective."

This was the finding of a study conducted at Sir Charles Gairdner Hospital in Perth, Western Australia, comparing the USCOM machine with thermodilution catheters among 24 ventilated post cardiac surgery patients. The research was conducted in the hospital's 18 bed intensive care unit.

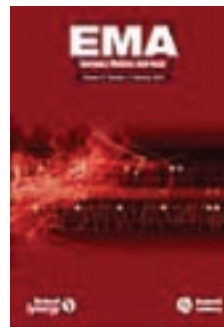
The study found very good agreement between the cardiac output (CO) measurements determined by the USCOM device and CO measurements determined by 22 out of 24 patients.

"Our study provided the initial evaluation that demonstrated that it is a reliable and accurate means of measuring CO non-invasively in critically ill patients." The study shows that in patients on mechanical ventilation, the flow detection rate was 91.7%.

"The CO measurement correlation with the standard thermodilution method using a PAC was very good (bias = 0.18). The USCOM monitor has a place in intensive care monitoring. It is accurate, rapid, safe, well-tolerated, non-invasive and cost-effective."

"At present, there is much controversy and little unanimous evidence regarding the utility and safety of the PAC. At the same time, recent evidence highlights the importance of early goal-directed therapy in critically ill patients. A safe and reliable method of non-invasive CO measurement is welcome. The USCOM device has many advantages."

The study was presented at the Society of Critical Care Medicine conference in Phoenix, Arizona in January 2005, and was published in the *British Journal of Anaesthesiology* in February 2005.



Emergency Medicine Australasia

June, 2005

Dey, I., Sprivilus, P., presented at International Conference of Emergency Medicine, Cairns, June 2004.

A study conducted at the Department of Emergency Medicine at Fremantle Hospital in Perth demonstrated the

reliability of USCOM in the Emergency Care setting.

The study, titled "Emergency Physicians can reliably assess Emergency Department patient cardiac output using the USCOM continuous wave Doppler cardiac output monitor" was first presented at the International Conference of Emergency Medicine in Cairns in June 2004.

As part of the study, a documented training protocol was developed (the Fremantle protocol) to test the reliability of the USCOM measurements and to assess the feasibility of training clinicians with no previous experience in the use of ultrasound technology.

The study states: "In conclusion, this study demonstrates that ED (Emergency Department) physicians with no ultrasound experience can be trained to use the USCOM and reliably obtain cardiac output results non-invasively in the vast majority of ED patients." The study states that analysis of 52 cardiac output assessments in 21 patients demonstrated excellent correlation between users. It concludes that emergency physicians with no prior ultrasonic experience can be trained to obtain reliable cardiac output estimations over the course of 20 patient assessments with USCOM.

This study was published in June 2005 in the *Emergency Medicine Australasia Journal* and now forms a key part in USCOM's protocols for training and education.

CORPORATE GOVERNANCE STATEMENT

USCOM Limited is committed to a corporate culture of excellence, openness, and integrity.

The company, its directors, management and staff are committed to fostering and maintaining the highest professional standards in dealing with all its stakeholders, including investors, employees, customers and the public at large.

This commitment is under-pinned by adherence to a set of policies for best practice in Corporate Governance.

In addition to strict compliance with its obligations under law, including the Corporations Act and the Australian Stock Exchange Listing Rules, USCOM has adopted best practice policies, modeled on the 10 core principles of good corporate governance as published in March 2003 by the ASX Corporate Governance Council.

The essential corporate governance principles are:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision-making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Encourage enhanced performance
9. Remunerate fairly and responsibly
10. Recognise the legitimate interests of stakeholders

The following is a point-by-point explanation of USCOM's compliance or otherwise with the 10 core principles.

Principle 1: Lay solid foundations for management and oversight

USCOM Limited has adopted a formal board charter, describing the functions and responsibilities of the board as well as those functions and responsibilities delegated to the management of the company.

The key elements of the Board charter are:

Membership

The board's membership and structure is selected for optimum efficiency while providing high levels of expertise in science, medicine and business.

The board currently consists of five members; three of them being non-executive directors and two executive directors.

Meetings

The board will meet typically every six weeks, but not less than six times per year. Directors are expected to attend substantially all of the board meetings as well as relevant meetings of the board committees.

Roles and Responsibilities

The role and responsibilities of the board are to:

- Oversee the control and accountability of the company
- Set the broad targets, objectives and business strategy
- Monitor the financial performance
- Assess the company's risk exposure and review risk management options
- Oversee and approve remuneration, employment and succession policies
- Appoint and regularly evaluate the Chief Executive Officer
- Oversee the company's corporate governance and legal obligations
- Monitor the company's compliance with its Code of Conduct
- Review and approve the company's Research and Development Plan
- Ensure compliance with and good management of quality systems
- Approve all major capital purchases, asset disposals or acquisitions and the issue of new shares
- Appoint and remove the company's External Audit

Committees

The company has appointed an Audit and Risk Committee, responsible for reporting to the full board on issues relating to the company's financial information and a regular review of the company's risk environment.

The Audit and Risk Committee, consisting of three independent directors, operates according to a Committee Charter, which is published in the annual report and on the company's website. The Audit and Risk Committee will meet at least three times per year.

Due to the relatively small size of the board, the company has chosen not to appoint a Remuneration Committee or a Nomination Committee for the foreseeable future.

Delegation to the CEO

The day-to-day management and operations of the company are delegated to the Chief Executive Officer (CEO).

Principle 2: Structure the board to add value

USCOM Limited enjoys the services of a board with a wide range of professional experience in fields such as science, medicine, marketing and international business.

The board consists of:

Mr Rob Phillips, Chairman	Executive director
Mr Gary Davey, CEO	Executive director
Mr Roman Zwolenski	Lead independent director
Dr Fred Berry	Independent director
Mr Luke Fay	Independent director

Not a member of the board, but in attendance by invitation is the Company Secretary, Mr Paul Butler.

Recommendation 2.1

A majority of the board should be independent directors.

The board consists of five members, three of whom are non-executive directors. The company takes the view that the three non-executive directors are also independent directors. In the interests of transparency, the company discloses relationships or business associations which may impact a person's own interpretation of the definition of independent.

Mr Roman Zwolenski

Lead independent director, Chairman of Audit and Risk Committee

Mr Zwolenski is not an executive officer of the company, is not a substantial shareholder or otherwise associated directly with a substantial shareholder of the company.

As an experienced manager and board director in the international biotechnology industry, Mr Zwolenski brings invaluable experience to the oversight of the company's policies and operations.

Disclosure: In 2002, Mr Zwolenski was engaged on a short-term consultancy basis by Bell Potter Securities Limited for the purpose of reviewing that company's investment in USCOM. Since that time, Mr Zwolenski has not been an employee, officer or consultant to Bell Potter.

Response: The company takes the view that this past activity has not and would not affect Mr Zwolenski's conduct or responsibilities as a director of the company.

Dr Fred Berry

Independent Director, member of Audit and Risk Committee

Dr Berry is not an executive officer of the company, is not a substantial shareholder or otherwise associated directly with a substantial shareholder of the company.

Dr Berry, a highly experienced leader in the Australian anaesthetics community, has been associated with USCOM since the company's inception. His insights into the workings of the medical industry are an essential component of the diligent running of the company.

Disclosure: Dr Berry is related through marriage to the Chairman of USCOM, Mr Rob Phillips, who is a substantial shareholder of the company.

Response: The company believes this relationship has not and would not affect Dr Berry's conduct or responsibilities as a director of the company.

Mr Luke Fay

Independent Director, member of Audit and Risk Committee

Mr Fay is not an executive officer of the company, is not a substantial shareholder or otherwise associated directly with a substantial shareholder of the company.

Mr Fay, with a scientific background in cardiovascular research, is also a veteran of the medical devices industry having served in senior management and marketing positions at Medtronic, ATL Ultrasound and General Electric Medical Systems.

Disclosure: Mr Fay is a Director of Coefficient Systems Limited, a sales and marketing company which holds an exclusive distribution agreement with USCOM for Australia and certain Asian territories. In May 2005, this representation became non-exclusive for Australia, with the appointment of USCOM's direct sales force. USCOM Limited holds 10% of the equity of Coefficient Systems Limited.

Response: In determining a definition of independence the company has assessed whether, under this contract, Mr Fay is a "material supplier or customer of the company".

Under Australian Accounting Standards Board standard 1031 a customer relationship is presumed immaterial when it generates less than 5% and presumed material when it generates more than 10% of revenue over a 12-month period. The company takes the view that these levels would not be exceeded in the foreseeable future.

Wherever matters relating to Coefficient Systems were presented to the board, Mr Fay would absent himself from the board's deliberations and decision making.

The company believes this relationship has not and would not affect Mr Fay's conduct or responsibilities as a director of the company.

The full board will review this matter on a regular basis as part of its Corporate Governance and board performance review process.

Recommendation 2.2

The Chairperson should be an independent director.

The Chairman of USCOM Limited, Mr Rob Phillips is an active member of the executive management team, is the company's largest single shareholder and is not an independent director. The company's non-compliance with this recommendation is based on a sound assessment of the best interests of all the stakeholders. Mr Phillips, as the inventor and founder of USCOM carries forward the vision and strategic direction of the company. The company believes it is essential that it maintain this momentum and continuity through the early formative years of the company.

Recommendation 2.3

The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Chairperson is Mr Rob Phillips. The Chief Executive Officer is Mr Gary Davey.

Recommendation 2.4

The board should establish a nomination committee

The company believes that a nomination committee is not necessary at this stage of the company's development. Issues relating to board membership will continue to be overseen by the full board. The company believes this to be justified given the relatively small size of the board (i.e. 5 members) and that significant growth in the number of directors is not envisaged in the medium term.

Recommendation 2.5

Provide the information indicated in Guide to reporting on principle 2.

The following additional information will be published in the corporate governance section of the annual report:

- the term of office held by each director in office at the date of the annual report
- a description of the procedure for the selection and appointment of new directors to the board
- a statement as to whether there is a procedure agreed by the board for directors to take independent professional advice at the expense of the company.

Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1

Establish a code of conduct to guide the directors, the chief executive officer and other key executives as to:

3.1.1 The practices necessary to maintain confidence in the company's integrity.

3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The company has developed a code of conduct for directors, management and staff, underlining the company's commitment to high ethical standards in the conduct of the company's business.

The Code of Conduct sets out the company's core values and serves as a checklist for our responsibilities under law, to the company, to the market, to our customers and to the public at large.

The Code of Conduct is a commitment to fair and honest trading and respect for people. It provides guidelines for staff, management and directors on:

- the defense on the company's reputation
- the proper management of the company's assets and resources
- the acceptance or offer of bribes and gifts
- the handling of conflicts of interest
- the reporting of breaches of the Code

The board of directors is responsible for ensuring the company's compliance with the Code and the good and fair management of reports of any breaches.

Recommendation 3.2

Disclose the policy concerning trading in company securities by directors, officers and employees

The company has adopted a policy in relation to share trading, which applies to all staff, management and directors, members of their families and any trust or family companies in which they may have an interest.

Under the Constitution of the company, directors and employees of the Company may not trade the securities of the company in the 30 days prior to the announcement of the company's half-year and full year financial results.

In addition, directors and employees who are in receipt of information which a reasonable person would expect to have a material effect on the price or value of USCOM shares and that information is yet to be published to the market, must not trade in USCOM securities.

Directors must notify the Company Secretary in advance of any trading in USCOM shares. Employees participating in the company's Share Options Programme must notify the Company Secretary in advance of any exercise of the employee's share options.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1

Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Chief Executive Officer and the General Manager, who supervises financial and accounting matters, are required to sign off on the company's accounts, as recommended.

Recommendation 4.2

The board should establish an audit committee

To assist in the execution of the Board's corporate governance responsibilities, USCOM Limited has established an Audit and Risk Committee. The Committee is made up of three members with the majority being independent directors and an independent director as Chairman. The Company Secretary acts as Secretary to the Committee.

The Audit and Risk Committee shall meet no less than three times per year or additionally as special circumstances arise. The External Auditors and management attend meetings of the committee by invitation.

The Audit and Risk Committee Charter is published on the company's website along with the complete set of Corporate Governance documentation.

The key roles and responsibilities of the Risk and Audit Committee are as follows:

- Review interim and annual financial statements;
- The establishment and maintenance of a framework of risk management;
- Internal controls and ethical standards for the management of the economic entity;
- Ensure accounting records are maintained in accordance with statutory and accounting standards requirements;
- Monitor systems designed to ensure financial statements and other information provided is timely, reliable and accurate;
- Review asset values to ensure they are appropriate and meet the requirements of Corporation Laws and Accounting Standards
- Review audit process with External Auditors to ensure full and frank discussion of audit issues in absence of management;

- Assess the adequacy of the company's control and risk environment, including accounting, financial and operating controls and the appropriateness of its accounting policies and practices;
- Act as the link between the board and the External Auditors, reviewing, on a half and full year basis, the financial results, tax returns and reports to the board on findings prior to publication and release to the market; and
- To review and evaluate the performance, independence and effectiveness of the External Auditors.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.

The company has produced and adopted a Disclosure Policy, which has been communicated to all directors, managers and employees.

Principle 6: Respect the rights of shareholders

Recommendation 6.1

Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

USCOM Limited is committed to keeping shareholders fully informed of significant developments and activities at the company.

The company's primary communications tool is its website, and all announcements are posted on the front page of the site, immediately after they are released to the ASX through the appropriate electronic publication procedure.

All announcements, dating back to May 2001, remain available on the website.

In addition, the website provides an "Investors" section, where more detailed information is available, including access to all of the company's financial statements and the delayed share trading data produced by ASX.

Where information may be provided to market analysts or the media which is materially incremental to the announcements already published, this information would be treated as an announcement and published accordingly.

Shareholders are encouraged to actively communicate with the company through contact details provided on the website.

The company also encourages shareholders to participate in the annual general meeting, which will be held in central Sydney. Ample notice of this meeting will be provided. All documents and presentations delivered to the annual meeting will be posted immediately on the company website.

Recommendation 6.2

Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The company's auditors, PKF Chartered Accountants will be in attendance at the annual general meeting and will be available to answer questions from shareholders.

Principle 7: Recognise and manage risk

Recommendation 7.1

The board or appropriate board committee should establish policies on risk oversight and management.

The company has appointed an Audit and Risk Committee, comprising three independent directors. The Committee is charged with oversight of the company's risk profile. The Committee assesses the adequacy of the company's control and risk environment, including accounting, financial and operating controls and the appropriateness of its accounting policies and practices.

The Committee manages a dynamic checklist of potential risk components and reviews each component during the course of a year.

Recommendation 7.2

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the board in writing that:

7.2.1 the statement given is in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

The Chief Executive Officer and the General Manager will state in writing to the board, as above.

Principle 8: Encourage enhanced performance

Recommendation 8.1

Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

As stated previously, the company does not currently see the need for a Nomination Committee, given the relatively small size of the board.

The performance of directors committees and key executives will be reviewed by the full board, on an annual basis, or more often if appropriate.

The criteria for the measurement of directors' performance are:

1. Attendance at board meetings and/or committee meetings
2. Level of participation in strategic decision making
3. Responsiveness to requests for activity outside meetings

The company will produce a set of procedures for the induction of new directors and senior executives of the company. This will include a detailed briefing about the strategic direction of the company and a full set of appropriate documents for the education of the new member.

Principle 9: Remunerate fairly and responsibly

Recommendation 9.1

Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

Remuneration Policy:

USCOM Limited has adopted a remuneration policy based on performance and contribution.

The objective of these policies is to:

- (a) Make USCOM an employer of choice
- (b) Make all employees direct stakeholders in the success of the company
- (c) Attract and retain the highest calibre personnel
- (d) Encourage a culture of reward for effort and contribution
- (e) Set incentives that reward short and medium term performance for the company as a whole
- (f) Encourage professional and personal development

In addition to base salary, the company has a policy of rewarding extraordinary contribution to the growth of the company with the grant of an annual cash bonus and options under the company's Share Options Plan.

Each staff member's performance is reviewed by the employee's direct manager, typically in July of each year. In this review, the objectives for the forthcoming 12-month period are mutually agreed and performance against the preceding year's objectives is reviewed. Where an employee has exceeded the objectives and or reasonable expectations of the manager, the employee will be considered for both a cash bonus and a share options grant.

Each manager will submit to the Chief Executive Officer a set of recommendations arising from the employee review. The Chief Executive Officer will then make recommendations to the board.

In the case of senior executives, i.e. the Chairman, Chief Executive Officer and General Manager, a recommendation for compensation review will be made by the Chairman to the board, which will conduct a performance review, as described above.

The company does not currently include motor vehicle or accommodation allowances as part of its senior executive remuneration packages. However, this may change in due course as and when the company commits to the establishment of regional offices.

Recommendation 9.2

The board should establish a remuneration committee

Given the relatively small size of the USCOM board, the company does not currently see the need for a separate Remuneration Committee. As stated in the ASX Corporate Governance Council guidelines, "Particularly for large companies, a remuneration committee can be a more efficient mechanism than the full board for focusing the company on appropriate remuneration policies.....It is recognised that for smaller boards, the same efficiencies may not be apparent from a formal committee structure."

The oversight of the company's remuneration policies, employee relations strategies, recruitment, management of the Share Options Plan, management development and succession planning are all matters for the full board. The board will take into account the recommendations of the Chief Executive Officer in its deliberations on remuneration. It will also consider prevailing remuneration levels for equivalent positions in comparative industries and or companies. The board may from time to time engage the services of independent consultants to assist in these deliberations.

Recommendation 9.3

Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

Non-executive directors are compensated in the form of fees. They do not participate in bonus or share options programmes as applied to staff and executives. Although each of the five directors of the company (two executive and three non-executive) were each granted 40,000 share options at the time of the company's ASX listing in December 2003, no further share options will be granted to non-executive directors as part of their remuneration. Non-executive directors do not receive retirement benefits other than statutory superannuation.

For the financial year to 30 June 2005, the aggregate amount of remuneration that may be paid to non-executive directors is \$165,000. (Executive directors do not receive directors' fees.) The remuneration for non-executive directors is set by resolution of shareholders.

Principle 10: Recognise the legitimate interests of stakeholders

Recommendation 10.1

Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The company has produced and adopted a Code of Conduct, which has been communicated to all directors, managers and employees and is published on the company's website as part of its Corporate Governance documentation.

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors present their report on USCOM Ltd for the financial year ended 30 June 2005.

Directors

The following persons were directors of USCOM Ltd during the whole of the financial year and up to the date of this report.

Mr R A Phillips	Executive Director - Chairman
Mr G D Davey	Executive Director - Chief Executive Officer & Deputy Chairman
Mr L H Fay	Non-Executive Director
Dr F R Berry	Non-Executive Director
Mr R Zwolenski	Non-Executive Director

Directors' Qualifications and Experience

Mr Rob Phillips

Mr Phillips is the chairman of USCOM Ltd and the inventor of the USCOM method. He is a recognised pioneer in the field of digital echocardiography and has presented scientific papers at some of the world's most prestigious cardiology conferences, including the World Congress of Echocardiography and the World Congress of Cardiology. Mr Phillips is a Fellow of the Institute of Radiology, Head of the Cardiac Faculty of the Australian Institute of Ultrasound and is Chairman of the Cardiac Education & Standards Sub-Committee of the Australian Society of Ultrasound in Medicine.

Mr Gary Davey

Mr Davey is a co-founder of USCOM Ltd and acts as the Chief Executive Officer and Deputy Chairman. Mr Davey is a seasoned business manager with managerial experience in the United States, Europe and Asia. Prior to returning to Australia in January 2000, Mr Davey had worked overseas for 19 years as a senior executive of the News Corporation in New York, London and Hong Kong and served as a member of News Corporation's Executive Committee.

Dr Fred Berry

Dr Berry is a non-executive director of USCOM Ltd. Dr Berry is one of Australia's most highly respected figures in the field of Anaesthesiology and has served on numerous industry bodies and Government committees. In addition to numerous clinical postings at major hospitals in Australia, Dr Berry's academic activities have taken him to training and teaching assignments in Europe and Asia.

Dr Berry is a member of the Audit and Risk Committee.

Mr Luke Fay

Mr Fay is a non-executive director of USCOM Ltd. He brings to the company a wealth of experience in the development and marketing of medical devices. Mr Fay is a seasoned executive in the devices field, having led teams of sales and marketing professionals through Australia and Asia. Mr Fay has held various professional roles including Councillor, Australasian Society for Ultrasound in Medicine, Chairman of the Marketing Committee of ASUM and President of the Diagnostic Imaging Association of Australia.

Mr Fay is a member of the Audit and Risk Committee.

Mr Roman Zwolenski

Mr Zwolenski is a non-executive Director of USCOM Ltd. He has over thirty years experience in biomedical product development and sales. He held senior management positions with multinational corporations in Australia and in Europe and has been CEO of two Australian ASX listed biotech product developers. Currently he is the managing director/CEO of ASX listed AMBRI limited. Mr Zwolenski has a science degree and has been a fellow of the Australian Institute of Company Directors since 1995. He has served for more than 5 years as a non executive director of several Australian public companies.

Mr Zwolenski is a member of the Audit and Risk Committee.

During the past three years Mr Zwolenski held the positions of the below listed companies:

Ambri Ltd	Independent non-executive director	September 2003 - present
	Managing director / Chief executive officer	October 2004 – present
Anadis Ltd	Director	September 2002 - present

DIRECTORS' REPORT cont.

Company Secretary's Qualifications and Experience

Mr Paul Butler

Mr Butler held the position of General Manager, Chief Financial Officer and Company Secretary at the end of the financial year. Mr Butler has a Bachelor of Economics from Macquarie University. He was appointed as Company Secretary of USCOM Ltd on 22 July 2003 and has been responsible for the financial control of USCOM Ltd since 1 January 2002. Mr Butler previously held senior management positions with Australian Electronic Manufacturing Services, NCR Australia and Scitec.

Meeting of directors

Directors	Board of Directors		Audit and Risk Committee	
	Meetings held while a Director	No. of meetings attended	Meetings held while a Director	No. of meetings attended
R A Phillips	7	7	-	-
G D Davey	7	7	-	-
L H Fay	7	7	3	3
F R Berry	7	5	3	2
R Zwolenski	7	7	3	3

Principal Activities

USCOM Ltd is engaged in the development, design, manufacture and marketing of non-invasive cardiac monitoring devices. USCOM Ltd owns a portfolio of intellectual property relating to the technology and techniques associated with these devices and manages a worldwide network of distribution partners for the sale of its equipment to hospitals and other medical care locations.

Operating Results

The loss of the Company after providing for income tax amounted to \$2,545,918. (2004 loss of \$1,251,684).

Dividends

No dividends were declared or recommended for the financial year ended 2005.

Significant changes in State of Affairs

There were no significant changes in State of Affairs during the financial year.

Operating and Financial Review

The operating and financial review is stated on pages 10 to 21 of the annual report.

Post Balance Date Events

No matter or circumstance has arisen since the end of the financial year to the date of this report, that has significantly affected or may significantly affect the activities of the Company, the results of those activities or the state of affairs of the Company in the ensuing or any subsequent financial year.

DIRECTORS' REPORT cont.

Future Developments

Other than the business activities described in the annual report, the Board is not aware of any likely developments in the foreseeable future which may materially impact on the financial outlook of the company.

Environmental Issues

The Company's operations are not subject to significant environmental regulation under the law of the Commonwealth and State.

Indemnifying Officers

The company has paid premiums to insure all directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a willful breach of duty in relation to the company.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their audit duties where the auditor's expertise and experience with the company are important.

There were no amounts paid to or are payable for non-audit services provided by PKF Chartered Accountants & Business Advisers during the financial year to the company.

Refer to note 25 of the financial statement on page 55 for details of auditors' remuneration.

Auditor's independence declaration

The auditor's independence declaration under section 307C of the Corporation Act is set out on page 38 and forms part of the Directors' Report.

REMUNERATION REPORT

Remuneration Policies

The Board is responsible for reviewing the remuneration policies and practices of the company, including the compensation arrangements of executive directors, non-executive directors and senior executives.

The company has adopted remuneration policies based on performance and contribution for determining the nature and amount of emoluments of board member and senior executives. The objective of these policies is to:

- (a) Make USCOM Ltd an employer of choice
- (b) Attract and retain the highest calibre personnel
- (c) Encourage a culture of reward for effort and contribution
- (d) Set incentives that reward short and medium term performance for the company as a whole
- (e) Encourage professional and personal development

In the case of senior executives, i.e. the Chairman, Chief Executive Officer and General Manager, a recommendation for compensation review will be made by the Chairman to the board, which will conduct a performance review.

DIRECTORS' REPORT cont.

REMUNERATION REPORT cont.

Non-executive directors

The Board determines the non-executive director remuneration by independent market data for comparative companies.

Approved by shareholders in November 2004 Annual General Meeting, as at the date of this report the maximum aggregate remuneration payable out of the funds of the Company to non-executive directors of the Company for their services as directors including their service on a committee of directors was \$165,000 per annum.

Directors' base fees are presently \$35,000 per annum. Non-executive directors do not receive any performance related remuneration, therefore they do not receive bonuses or non-cash benefits.

Non-executive directors' retirement payments are limited to compulsory employer superannuation.

Executive directors and senior management remuneration

The company's remuneration policy directs that the remuneration package appropriately reflects the executives' duties and responsibilities and that remuneration levels attract and retain high caliber executives with the skills necessary to successfully manage the company's operations and achieve its strategic and financial objectives.

The total remuneration packages of executive directors and senior management are on salary basis. In addition to base salary, the company has a policy of rewarding extraordinary contribution to the growth of the company with the grant of an annual cash bonus and options under the company's Employee Share Option Plan.

Executives are also entitled to be paid for their reasonable travel, accommodation and other expenses incurred in consequence in the execution of duties.

Other than the USCOM Ltd Employee Share Option Plan, the Company does not provide any other non-cash benefits in lieu of base salary to executives.

Remuneration packages for executive directors and senior executives generally consist of three components:

- Fixed remuneration which is made up of cash salary, salary sacrifice components and superannuation
- Short term incentives
- Long term incentives which include issuing options pursuant to the USCOM Ltd Employee Share Option Plan

Fixed remuneration

Senior executives who possess a high level of skill and experience are offered a competitive base salary. The performance of each executive will be reviewed annually. Following the review, the Company may in its sole discretion increase the salary based on that executive's performance, productivity and such other matters as the Board considers relevant.

Superannuation contribution by the Company is limited to the statutory level at 9% of wages and salaries.

Short-term incentives

The remuneration of USCOM Ltd senior executives does not include any short-term incentive bonuses as part of their employment conditions. The board may however approve discretionary bonuses to executives in relation to certain milestones being achieved.

Long-term incentives

The Company has adopted a Share Option Plan for the benefit of executive and non-executive directors, full-time or part-time staff members employed by the Company.

In accordance with the Plan, exercise price is based on 85% of the average ASX closing price for the 5 days prior to offer/ acceptance of the options. Each option is issued for a period of 4 years, which vested in tranches of 25% throughout the period as per USCOM Ltd Employee Share Option Plan.

The Board, at its discretion, may approve the issue of options under the Employee Share Option Plan to executive directors and senior executives. The vesting of options issued may be conditional upon the achievement of performance hurdles determined by the Board from time to time.

DIRECTORS' REPORT cont.

REMUNERATION REPORT cont.

Independent data from applicable sources may be requested by the Board to assess whether the performance hurdles have been met.

Service agreements

The Company has entered into a service agreement with the Chairman, Chief Executive Officer and General Manager that:

- Outlines the components of remuneration payable;
- Term and termination conditions

Details of the service agreement are as follows:

Term

The executive employment agreements are for a term of 3 years commencing on 10 December 2003. The term of employment may be extended by the Company after the expiration of the initial 3 year term.

Each executive may not, during the term of the employment agreement, perform work for any other person, corporation or business without the prior written consent of the Company.

Termination

Despite anything to the contrary in the agreement, the Company or the executive may terminate the employment at any time by giving the other party 3 months' notice in writing.

If either the Company or the executive gives notice of termination, the Company may, at its discretion, choose to terminate the executive's employment immediately or at any time during the notice period and pay the executive an amount equal to the salary due to him for the residual period of notice at the time of termination.

Where the executive give less than 3 months' written notice, the Company may withhold from the executive's final payment an amount equal to the shortfall in the notice period.

The employment of each executive may be terminated immediately without notice or payment in lieu in the event of any serious or persistent breach of the agreement, any serious misconduct or willful neglect of duties, in the event of bankruptcy or any arrangement or compensation being made with creditors, on conviction of a criminal offence, permanent incapacity of the executive or a consistent failure to carry out duties in a manner satisfactory to the Company.

Directors' and executives' remuneration

Remuneration includes salaries, benefits and superannuation contributions in respect of the financial year.

	Directors' Base Fee \$	Base Salary \$	Superannuation \$	Other payments \$	Options \$	Total Remuneration \$
Non-executive director						
L H Fay	35,000	-	3,150	-	6,467	44,617
F R Berry	35,000	-	3,150	-	6,467	44,617
R Zwolenski	35,000	-	3,150	-	6,467	44,617
Executive director						
R A Phillips	-	141,284	12,716	-	6,467	160,467
G D Davey	-	141,284	12,716	-	6,467	160,467
Specified executive						
P W Butler	-	141,284	15,236	28,000 ¹	24,248	208,768
Total	105,000	423,852	50,118	28,000	56,583	663,553

¹ Performance related bonus paid.

DIRECTORS' REPORT cont.

REMUNERATION REPORT cont.

Number of options held by directors and specified executives

	Balance 1 July 2004 No.	Granted During FY2005 No.	Exercised During FY2005 No.	Lapsed During FY2005	Balance 30 June 2005 No.	Total Exercisable 30 June 2005 No.
Non-executive director						
L H Fay	40,000	-	-	-	40,000	-
F R Berry	40,000	-	-	-	40,000	-
R Zwolenski	40,000	-	-	-	40,000	-
Executive director						
R A Phillips	40,000	-	-	-	40,000	-
G D Davey	40,000	-	-	-	40,000	-
Specified executive						
P W Butler	150,000	50,000	-	-	200,000	75,000
Total	350,000	50,000	-	-	400,000	75,000

Number of shares held by directors and specified executives (including indirect interest)

	Balance 1 July 2004 No.	Received as Remuneration No.	Options Exercised No.	Net Change Other* No.	Balance 30 June 2005 No.
Non-executive director					
L H Fay	737,500	-	-	-	737,500
F R Berry	100,000	-	-	20,000	120,000
R Zwolenski	125,000	-	-	-	125,000 ¹
Executive director					
R A Phillips	16,750,000	-	-	-	16,750,000 ²
G D Davey	6,210,000	-	-	49,000	6,259,000 ³
Specified executive					
P W Butler	300,000	-	-	(25,000)	275,000
Total	24,222,500	-	-	44,000	24,266,500

* Net change other refers to share purchased or sold during the financial year.

¹ 76,364 of these ordinary shares are held by Guardian Trust Australia Limited (as trustee of the Bell Medical Innovation Trust).

Mr Zwolenski holds units in this trust indirectly through Z-link Pty Ltd Super Fund.

48,636 of these ordinary shares are held by Z-link Pty Ltd Super Fund, Mr Zwolenski is a trustee of this fund.

² 60,000 of these ordinary shares are held by Northern Cardiac Sonography Pty Ltd.

Mr Phillips is a Director and controller of this company.

100,000 of these ordinary shares are held by Northern Cardiac Sonography Pty Ltd as trustee for the Phillips Family Superannuation.

³ 180,000 of these ordinary shares are held by Davey Superannuation Nominees Pty Ltd.

Mr Davey is a trustee, but not a beneficiary.

This Directors' report is signed in accordance with a resolution of the board of directors.



Rob Phillips, Director

Sydney, 7 September 2005



Gary Davey, Director



Chartered Accountants
& Business Advisers

NSW Partnership
ABN 83 236 985 726

Level 10, 1 Margaret Street
Sydney NSW 2000

DX 10173 Sydney Stock Exchange NSW

Tel: 61 2 9251 4100
Fax: 61 2 9240 9821

www.pkf.com.au

Liability is limited by the Accountants
Scheme, approved under the
Professional Standards Act 1994 (NSW)

AUDITOR'S INDEPENDENCE DECLARATION

**To: The Directors
USCOM Limited**

As lead engagement partner for the audit of USCOM Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit/review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit/review.

PKF

Chartered Accountants

A New South Wales Partnership

TIM SYDENHAM

Partner

Dated at Sydney this 7th day of September 2005

STATEMENT OF FINANCIAL PERFORMANCE

For the financial year ended 30 June 2005

	<i>Note</i>	2005 \$	2004 \$
Revenues from ordinary activities	2	1,269,086	948,342
Raw materials and consumables used		(111,342)	(92,888)
Expenses from ordinary activities, excluding borrowing cost expenses	3	(3,996,122)	(2,257,070)
Borrowing cost expenses		(2,108)	(1,804)
Loss from ordinary activities before income tax		(2,840,486)	(1,403,420)
Income tax credit relating to ordinary activities	4	294,568	151,736
Net loss from ordinary activities after income tax	5	(2,545,918)	(1,251,684)
Total changes in equity		(2,545,918)	(1,251,684)
Basic earnings per share (cents per share)	6	(6.7)	(3.6)
Diluted earnings per share (cents per share)	6	(6.5)	(3.6)

This Statement of Financial Performance is to be read in conjunction with the attached notes.

STATEMENT OF FINANCIAL POSITION

As at the financial year ended 30 June 2005

	<i>Note</i>	2005 \$	2004 \$
CURRENT ASSETS			
Cash assets	7	10,545,218	13,324,934
Receivables	8	158,167	293,868
Inventories	10	329,127	197,941
Current tax assets	11	14,435	22,981
Other assets	14	560,248	349,932
TOTAL CURRENT ASSETS		11,607,195	14,189,656
NON-CURRENT ASSETS			
Receivables	8	3,300	10,004
Other financial assets	9	100,030	100,030
Plant and equipment	12	155,504	158,461
Intangible assets	13	253,238	146,266
TOTAL NON-CURRENT ASSETS		512,072	414,761
TOTAL ASSETS		12,119,267	14,604,417
CURRENT LIABILITIES			
Payables	15	236,780	231,453
Provisions	16	88,261	37,314
Lease incentives	17	12,938	12,938
TOTAL CURRENT LIABILITIES		337,979	281,705
NON-CURRENT LIABILITIES			
Provisions	16	28,012	10,581
Lease incentives	17	6,469	19,406
TOTAL NON-CURRENT LIABILITIES		34,481	29,987
TOTAL LIABILITIES		372,460	311,692
NET ASSETS		11,746,807	14,292,725
EQUITY			
Contributed equity	18	16,644,265	16,644,265
Accumulated losses	5	(4,897,458)	(2,351,540)
TOTAL EQUITY		11,746,807	14,292,725

This Statement of Financial Position is to be read in conjunction with the attached notes.

STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2005

	<i>Note</i>	2005 \$	2004 \$
Cash flows from operating activities			
Receipts from customers		606,548	144,523
Grants received		150,000	122,830
Payments to suppliers and employees		(4,181,956)	(2,210,011)
Interest received		685,852	264,440
Interest and other costs of finance paid		(1,968)	(1,945)
Income tax receipt		151,586	213,060
Insurance recovery		1,568	-
Net operating cash flows	<i>19(b)</i>	(2,588,370)	(1,467,103)
Cash flows from investing activities			
Payments for purchase of plant and equipment		(59,096)	(85,493)
Payments for purchase of patents and trademarks		(132,250)	(104,963)
Net investing cash flows		(191,346)	(190,456)
Cash flows from financing activities			
Proceeds from issue of shares		-	16,029,990
Share issue cost		-	(1,354,990)
Repayment of non interest bearing liabilities		-	(77,093)
Net financing cash flows		-	14,597,907
Net increase/decrease in cash held		(2,779,716)	12,940,348
Cash at 1 July 2004		13,324,934	384,586
Cash at 30 June 2005	<i>19(a)</i>	10,545,218	13,324,934

This Statement of Cash Flows is to be read in conjunction with the attached notes.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers USCOM Ltd. USCOM Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies used by USCOM Ltd in the preparation of the financial report.

(a) Cash

For the purpose of the statement of cash flows, cash includes the following, net of bank overdrafts, all cash on hand, at call deposits with banks or financial institutions and investments in money market instruments maturing within less than two months.

(b) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Interest revenue is recognised in the period in which it is derived. Dividend revenue is recognised when the right to receive a dividend has been established. Government grants revenue is recognised when earned.

(c) Inventories

Inventories are measured at the lower of cost or net realisable value. Cost is based on the weighted average principle. The cost of manufactured products includes direct materials (including contracted costs), direct labour and an appropriate portion of variable and fixed overheads. The costs are recognised when materials are delivered to the company.

(d) Plant and equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant & Equipment

Items of plant and equipment are measured on the basis of lower of cost or recoverable value and are depreciated over 2 to 7 years.

(e) Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated over the useful life of the asset to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

(f) Leases

Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments for operating leases are charged as expenses in the periods in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

(g) Investments

Non-current investments are measured on the lower of cost or recoverable value. The recoverable amount is assessed from the underlying net assets for non-listed investments.

(h) Research & Development Expenditure

Research & Development costs are charged to profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

(i) Intangibles

Patents and Trademarks

Patents and Trademarks are valued in the accounts at cost of acquisition and are amortised on a straight-line basis over 8 years.

(j) Foreign Currency Transactions and Balances

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

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

(k) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

(l) Provisions

Employee Entitlements

Provision is made for the company liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year, together with entitlements arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amount expected to be paid when the liability is settled, plus related on-costs. Other employee benefits later than one year have been measured at the present value of the estimated future cash outflow to be made for those benefits.

Contributions are made by the Company to employees' superannuation funds and are charged as expenses when incurred.

Provision for Warranties

Provision is made in respect of the Company's estimated liability on all products and services under warranty at balance date. The provision is measured at the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the company's history of warranty claims.

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

Doubtful Debts

Amounts owing to the Company are assessed and a general provision is made to cover likely doubtful debts.

(m) Liabilities

Liabilities are carried on the Statement of Financial Position at their principal amount. Any interest expense is accrued at the contracted rate and the accrued amount, if any, is included in accruals and sundry creditors.

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(o) Receivables

Trade account receivables are recognised and carried at original invoice amounts less provision for doubtful debts. An estimated doubtful debt is made when collection of the full amount is no longer probable. Debts are written off as incurred.

(p) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(q) Comparative figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(r) Adoption of Australian Equivalents to International Financial Reporting Standards

Australian equivalents to IFRSs will be adopted in the financial report for the year ending 30 June 2006 and in the comparative information presented in that report for the year ending 30 June 2005. In preparation, opening balances at 1 July 2004 for the year ending 30 June 2005 will be converted to IFRSs in accordance with a new Standard AASB 1 "First-time Adoption of International Financial Reporting Pronouncements".

Refer to Note 28 for the impact of adopting Australian Equivalents to International Financial Reporting Standards.

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$
NOTE 2: REVENUE FROM ORDINARY ACTIVITIES		
Operating revenue		
Sale of goods	480,107	384,390
Grants received	150,000	122,830
Exchange gains	-	11,989
Total operating revenue	630,107	519,209
Non-operating revenue		
Interest received	637,411	429,133
Insurance recovery	1,568	-
Total non-operating revenue	638,979	429,133
Total revenue from ordinary activities	1,269,086	948,342

NOTE 3: EXPENSES FROM ORDINARY ACTIVITIES, EXCLUDING BORROWING COST EXPENSES

Depreciation and amortisation expenses	87,331	57,127
Employee expenses	1,321,842	700,332
Research and development expenses	527,899	342,052
Advertising and marketing expenses	1,507,182	737,055
Occupancy expenses	166,847	139,506
Auditors remuneration (audit)	27,500	27,500
Auditors remuneration (audit review)	9,500	11,660
Regulatory expenses	24,331	91,825
Administrative expenses	296,374	142,724
Exchange losses	26,900	-
Other expenses from ordinary activities	416	7,289
Total expenses from ordinary activities, excluding borrowing cost expenses	3,996,122	2,257,070

Operating lease expenses of \$107,068 in 2005 and \$71,355 in 2004 are included in occupancy expenses above.

NOTE 4: INCOME TAX CREDIT

Research and development tax offset	294,568	151,736
Total income tax credit	294,568	151,736

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$

NOTE 5: ACCUMULATED LOSSES

Accumulated losses at the beginning of the financial year	(2,351,540)	(1,099,856)
Net loss attributable to members of the company	(2,545,918)	(1,251,684)
Accumulated losses at the end of the financial year	(4,897,458)	(2,351,540)

NOTE 6: EARNINGS PER SHARE

Net loss used in calculation of basic and diluted EPS	2,545,918	1,251,684
	No.	No.
Weighted average number of ordinary shares during the year used in calculation of basic EPS	38,000,000	34,437,158
Weighted average number of options outstanding	999,449	449,536
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	38,999,449	34,886,694
Basic earning per share (cents per share)	(6.7)	(3.6)
Diluted earning per share (cents per share)	(6.5)	(3.6)

NOTE 7: CASH ASSETS

Cash on hand	322	336
Bank: Cheque accounts	55,088	161,685
Bank: Cash management	1,463,339	2,136,444
Bank: Term deposits	9,026,469	11,026,469
Total cash assets	10,545,218	13,324,934

NOTE 8: RECEIVABLES

Current

Trade debtors	158,167	293,868
Total current receivables	158,167	293,868

Non-current

Rental bond	3,300	10,004
Total non-current receivables	3,300	10,004

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$

NOTE 9: OTHER FINANCIAL ASSETS

Non-current

Shares in unlisted company

Coefficient Systems Pty Ltd (at cost)

	100,030	100,030
--	---------	---------

Total other financial assets

	100,030	100,030
--	---------	---------

Coefficient Systems Pty Ltd operates in the distribution of medical equipment.

USCOM Ltd holds 10% of the issued shares in Coefficient Systems Pty Ltd. (Refer to Note 21)

NOTE 10: INVENTORIES

Current inventories at cost

Raw materials

	52,097	28,241
--	--------	--------

Finished products

	277,030	169,700
--	---------	---------

Total inventories

	329,127	197,941
--	---------	---------

NOTE 11: CURRENT TAX ASSETS

GST receivable

	14,435	22,981
--	--------	--------

Total current tax assets

	14,435	22,981
--	--------	--------

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$
<hr/>		
NOTE 12: PLANT AND EQUIPMENT		
Plant and equipment at cost	173,822	133,550
Less accumulated depreciation	66,944	28,851
	106,878	104,699
Office furniture and equipment at cost	46,211	42,997
Less accumulated depreciation	21,024	9,889
	25,187	33,108
Computer software at cost	19,328	9,788
Less accumulated depreciation	8,444	3,531
	10,884	6,257
Low value asset pool at cost	26,236	21,856
Less accumulated depreciation	13,681	7,459
	12,555	14,397
Total plant and equipment	155,504	158,461

Movements in carrying amounts

	Plant and equipment	Office furniture	Computer software	Low value asset pool
	\$	\$	\$	\$
Useful life	2-7 years	2-7 years	3 years	3 years
Opening value at 1 July 2004	104,699	33,108	6,257	14,397
Additions	41,964	3,214	9,540	4,378
Depreciation expense	(39,785)	(11,135)	(4,913)	(6,220)
Carrying amount at 30 June 2005	106,878	25,187	10,884	12,555

NOTE 13: INTANGIBLE ASSETS

Non-current

Patents at cost	297,928	165,678
Less accumulated amortisation	44,690	19,412
Total intangible assets	253,238	146,266

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$
<hr/>		
NOTE 14: OTHER ASSETS		
<u>Current</u>		
Income tax credit	294,718	151,736
Accrued interest income	116,123	164,694
Prepayments	149,407	33,502
Total other assets	560,248	349,932
NOTE 15: PAYABLES		
<u>Current</u>		
Trade creditors	98,988	151,141
Accruals and sundry creditors	39,160	32,486
Employee related payables	98,632	47,826
Total payables	236,780	231,453
NOTE 16: PROVISIONS		
<u>Current</u>		
Provision for annual leave	88,261	37,314
	88,261	37,314
<u>Non-current</u>		
Provision for long service leave	28,012	10,581
	28,012	10,581
Aggregate employee entitlements	116,273	47,895
Number of employees at year-end	23	14
NOTE 17: LEASE INCENTIVES		
Current	12,938	12,938
Non-current	6,469	19,406
Total lease incentives	19,407	32,344

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$

NOTE 18: CONTRIBUTED EQUITY

Ordinary shares

Issued capital

Fully paid ordinary shares	16,644,265	16,644,265
Total contributed equity	16,644,265	16,644,265

Contributed equity movement

Shares on issue at the beginning of the year	16,644,265	1,969,265
Proceeds of balance of partly paid shares	-	29,990
Proceeds of shares issued on 10 December 2003	-	16,000,000
Costs relating to share issue	-	(1,354,990)
Ordinary shares at the end of the year	16,644,265	16,644,265

Ordinary Shares

	No.	No.
Ordinary shares at the beginning of the year	38,000,000	30,000,000
Shares issued on 10 December 2003	-	8,000,000
Total fully paid ordinary shares	38,000,000	38,000,000

Fully paid 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, or via a show of hands.

Options

For information relating to USCOM Ltd's employee share option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 27.

At 30 June 2005, there were 1,124,000 unissued ordinary shares for which options were outstanding. (2004: 855,000)	1,124,000	855,000
Total outstanding options at 30 June 2005	1,124,000	855,000

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$
NOTE 19: CASH FLOW INFORMATION		
(a) Reconciliation of cash		
Cash at bank and on hand	10,545,218	13,324,934
Total cash at end of year	10,545,218	13,324,934
(b) Reconciliation of net cash provided by operating activities to loss from ordinary activities after income tax		
Loss from ordinary activities after income tax	(2,545,918)	(1,251,684)
<i>Non cash flows in loss from ordinary activities</i>		
Depreciation	62,053	40,590
Amortisation	25,278	16,537
<i>Change in assets and liabilities</i>		
<i>(Increase)/Decrease in assets</i>		
Trade debtors	135,701	(264,229)
Inventories	(131,186)	(118,752)
Prepayments	(115,905)	(33,502)
Income tax	(142,982)	61,324
Accrued income	48,571	(164,694)
GST assets	8,546	8,624
Bond deposits	6,704	(4)
<i>Increase/(Decrease) in liabilities</i>		
Trade creditors	(52,153)	132,677
Accruals and sundry creditors	6,674	7,335
Employee related payables	50,806	26,128
Employee provisions	68,378	40,203
Lease incentives	(12,937)	32,344
Net cash used by operating activities	(2,588,370)	(1,467,103)

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

NOTE 20: FINANCIAL INSTRUMENTS

Financial instruments

At 30 June 2005, there were no outstanding contracts.

Credit risk

The credit risk on financial assets of the Company which have been recognised on the Statement of Financial position is generally the carrying amount, net of any provisions for loss.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

NOTE 20: FINANCIAL INSTRUMENTS cont.

For the financial year ended 30 June 2005

	Weighted Average Effective Interest Rate %	Fixed Interest Rate Maturing												
		Floating Interest Rate \$		Within 1 Year \$		1 to 5 Years \$		Over 5 Years \$		Non-interest Bearing \$		Total \$		
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
Financial assets:														
Cash	5.352	4.400	10,518,749	13,298,465	-	-	26,469	26,469	-	-	-	-	10,545,218	13,324,934
Trade debtors			-	-	-	-	-	-	-	158,167	293,868	158,167	293,868	293,868
Investments			-	-	-	-	-	-	-	100,030	100,030	100,030	100,030	100,030
Receivables	6.50	6.50	-	-	2,134	8,000	1,166	2,004	-	116,123	164,694	119,423	174,698	174,698
Total financial assets			10,518,749	13,298,465	2,134	8,000	27,635	28,473	-	374,320	558,592	10,922,838	13,893,530	13,893,530
Financial liabilities:														
Trade creditors			-	-	-	-	-	-	-	98,988	151,141	98,988	151,141	151,141
Payables			-	-	-	-	-	-	-	137,792	80,312	137,792	80,312	80,312
Total financial liabilities			-	-	-	-	-	-	-	236,780	231,453	236,780	231,453	231,453
Net financial assets			10,518,749	13,298,465	2,134	8,000	27,635	28,473	-	137,540	327,139	10,686,058	13,662,077	13,662,077
Reconciliation of net financial assets to net assets														
Net financial assets as above													10,686,058	13,662,077
Non financial assets and liabilities														
Current tax credits														
Inventories														309,153
Prepayments														329,127
Plant and equipment														149,407
Intangible assets														155,504
Provisions														253,238
Lease incentive (operating)														(116,273)
														(19,407)
Net assets per Statement of Financial position														11,746,807
														14,292,725

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$

NOTE 21: RELATED PARTIES INFORMATION

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

USCOM Ltd holds 10% of the issued shares in Coefficient Systems Pty Ltd. As directors of USCOM Ltd, Mr Fay is a director of Coefficient Systems Pty Ltd; Mr Phillips is a director of Coefficient Systems Pty Ltd and Northern Cardiac Sonography Pty Ltd.

Financial performance and position with Coefficient Systems Pty Ltd

Sales to Coefficient Systems Pty Ltd	180,115	43,341
	180,115	43,341
 Current receivables	 20,754	 66,524
	20,754	66,524
 Current payables	 13,200	 883
	13,200	883

NOTE 22: SEGMENT INFORMATION

USCOM Ltd operates in the health products industry

Geographic segment revenues

Australia/New Zealand	155,818	55,817
North Asia	80,723	250,102
South Asia	124,115	43,341
Europe	101,596	35,130
Others	17,855	-
Segment total	480,107	384,390

NOTES TO THE FINANCIAL STATEMENTS cont.

For the financial year ended 30 June 2005

	2005	2004
	\$	\$

NOTE 23: CONTINGENCIES

There were no contingencies as at 30 June 2005.

NOTE 24: COMMITMENTS

Operating lease commitments

Operating commitments represent payments due for office rental and have an average term of 3 years.

Less than 1 year	103,158	103,158
Between 1 and 5 years	57,084	176,758
	160,242	279,916

NOTE 25: AUDITORS' REMUNERATION

Audit of financial report	27,500	27,500
Review of financial report	9,500	11,660
	37,000	39,160

NOTE 26: SUBSEQUENT EVENTS

No matter or circumstance has arisen since the end of the financial year to the date of this report, that has significantly affected or may significantly affect the activities of the Company, the results of those activities or the state of affairs of the Company in the ensuing or any subsequent financial year.

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 27: EMPLOYEE SHARE OPTION PLAN

The Company has adopted a Share Option Plan for the benefit of executive and non-executive directors and full-time or part-time staff members employed by the Company. At the date of this Report the following options had been issued pursuant to the Share Option Plan. Each option was issued for a period of 4 years and which vest in tranches of 25% throughout the period. No options are exercisable in the first 9 months after the grant date.

Exercise price is based on 85% of the average ASX closing price for the 5 days prior to offer/acceptance of the options, in accordance with the USCOM Ltd Share Option Plan.

<u>Movement during the financial year</u>	30 June 2005	30 June 2004
	No.	No.
Opening number of options	855,000	-
Granted during the financial year	269,000	895,000
Lapsed during the financial year	-	(40,000)
Exercised during the financial year	-	-
Closing number of options	1,124,000	855,000

<u>Options granted during the financial year</u>	30 June 2005	Exercise price
	No.	\$
Options granted on 17 December 2004	269,000	2.27
Total options granted during the financial year	269,000	

<u>Details of options outstanding as at end of year</u>				30 June 2005	Exercise price
Holders No.	Grant date	% Exercisable at 30 June 2005	Expiry date	Outstanding Option No.	\$
5 (Directors)	20 October 2003	-	20 October 2007	200,000	2.00
5 (Advisory committee)	20 October 2003	50%	20 October 2007	150,000	2.00
5	20 October 2003	50%	20 October 2007	290,000	2.00
2	1 June 2004	50%	1 June 2008	100,000	2.00
1	1 June 2004	50%	1 June 2008	30,000	2.01
1	1 June 2004	50%	1 June 2008	50,000	2.17
1	1 June 2004	50%	1 June 2008	15,000	2.18
1	1 June 2004	50%	1 June 2008	20,000	2.28
13	17 December 2004	-	17 December 2008	269,000	2.27
Total				1,124,000	

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 28: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

Australian equivalents to International Financial Reporting Standards (AIFRS) will be adopted in USCOM Ltd for the year ending 30 June 2006 and the comparative information presented in the report for the year ending 30 June 2005. In preparation for the transition, opening balances as at 1 July 2004 for the comparative year ending 30 June 2005 have been converted to AIFRS in accordance with new accounting standard AASB 1 "First Time Adoption of Australian International Financial Reporting Standards".

The transition to Australian equivalents of IFRS's is being managed by Paul Butler, USCOM Ltd's General Manager. A timetable has been setup to manage the transition and is currently on time.

Set out below are current estimates of the quantitative impact made by management of the changes on equity as at 1 July 2004, changes on equity as at 30 June 2005 and reconciliation of the loss for year ended 30 June 2005.

Management estimates the quantitative impact of changes at the time of print 30 June 2005 annual report may differ from 30 June 2006 first annual report under AIFRS, due to ongoing analysis to AIFRS, and emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

The following reconciliations explain how it is estimated that the transition to AIFRS will affect reported financial position and financial performance.

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 28: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) cont.

Reconciliation of Financial Position As at 30 June 2004	Note	Current GAAP June 2004 \$	Effect of transition to AIFRSs \$	AIFRSs June 2004 \$
CURRENT ASSETS				
Cash assets		13,324,934	-	13,324,934
Receivables		293,868	-	293,868
Inventories		197,941	-	197,941
Current tax assets		22,981	-	22,981
Other assets		349,932	-	349,932
TOTAL CURRENT ASSETS		14,189,656	-	14,189,656
NON-CURRENT ASSETS				
Receivables		10,004	-	10,004
Other financial assets		100,030	-	100,030
Plant and equipment		158,461	-	158,461
Intangible assets		146,266	-	146,266
TOTAL NON-CURRENT ASSETS		414,761	-	414,761
TOTAL ASSETS		14,604,417	-	14,604,417
CURRENT LIABILITIES				
Payables		231,453	-	231,453
Provisions		37,314	-	37,314
Lease incentives		12,938	-	12,938
TOTAL CURRENT LIABILITIES		281,705	-	281,705
NON-CURRENT LIABILITIES				
Provisions		10,581	-	10,581
Lease incentives		19,406	-	19,406
TOTAL NON-CURRENT LIABILITIES		29,987	-	29,987
TOTAL LIABILITIES		311,692	-	311,692
NET ASSETS		14,292,725	-	14,292,725
EQUITY				
Contributed equity		16,644,265	-	16,644,265
Options reserve	1	-	199,547	199,547
Accumulated losses		(2,351,540)	(199,547)	(2,551,087)
TOTAL EQUITY		14,292,725	-	14,292,725

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 28: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) cont.

Reconciliation of Financial Position As at 30 June 2005	Note	Current GAAP June 2005 \$	Effect of transition to AIFRSs \$	AIFRSs June 2005 \$
CURRENT ASSETS				
Cash assets		10,545,218	-	10,545,218
Receivables		158,167	-	158,167
Inventories		329,127	-	329,127
Current tax assets		14,435	-	14,435
Other assets		560,248	-	560,248
TOTAL CURRENT ASSETS		11,607,195	-	11,607,195
NON-CURRENT ASSETS				
Receivables		3,300	-	3,300
Other financial assets		100,030	-	100,030
Plant and equipment		155,504	-	155,504
Intangible assets		253,238	-	253,238
TOTAL NON-CURRENT ASSETS		512,072	-	512,072
TOTAL ASSETS		12,119,267	-	12,119,267
CURRENT LIABILITIES				
Payables		236,780	-	236,780
Provisions		88,261	-	88,261
Lease incentives		12,938	-	12,938
TOTAL CURRENT LIABILITIES		337,979	-	337,979
NON-CURRENT LIABILITIES				
Provisions		28,012	-	28,012
Lease incentives		6,469	-	6,469
TOTAL NON-CURRENT LIABILITIES		34,481	-	34,481
TOTAL LIABILITIES		372,460	-	372,460
NET ASSETS		11,746,807	-	11,746,807
EQUITY				
Contributed equity		16,644,265	-	16,644,265
Options reserve	1	-	499,752	499,752
Accumulated losses		(4,897,458)	(499,752)	(5,397,210)
TOTAL EQUITY		11,746,807	-	11,746,807

NOTES TO THE FINANCIAL STATEMENTS cont.

NOTE 28: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) cont.

Reconciliation of Financial Position As at 30 June 2005	Note	Current GAAP June 2005 \$	Effect of transition to AIFRSs \$	AIFRSs June 2005 \$
Revenues from ordinary activities		1,269,086	-	1,269,086
Raw materials and consumables used		(111,342)	-	(111,342)
Expenses from ordinary activities, excluding borrowing cost expenses	1	(3,996,122)	(300,205)	(4,296,327)
Borrowing cost expenses		(2,108)	-	(2,108)
Loss from ordinary activities before income tax		(2,840,486)	(300,205)	(3,140,691)
Income tax credit relating to ordinary activities	2	294,568	-	294,568
Net loss from ordinary activities after income tax		(2,545,918)	(300,205)	(2,846,123)
Total changes in equity	1	(2,545,918)	(300,205)	(2,846,123)

Notes

1. The present policy of providing share-based compensation to employees, under AIFRS, results in the recognition of an expense and an equivalent increase in equity.

It is estimated that adjustments for share-base payments are \$199,547 and \$300,205 for the years ended 30 June 2004 and 30 June 2005 respectively. Therefore, as at 30 June 2005, contributed equity increases by \$499,752 with an equivalent increase in accumulated losses. Refer to note 28 for details of the share-based compensation provided by USCOM Ltd.

2. Currently, USCOM Ltd adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Management has estimated that the adoption of AASB 112 has no impact at 30 June 2005.

DIRECTORS' DECLARATION

USCOM Limited

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 32 to 60, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporation Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company;
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations required by section 286 of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2005.

This declaration is made in accordance with a resolution of the board of directors.



Rob Phillips, Director



Gary Davey, Director

Sydney, 7 September 2005



Chartered Accountants
& Business Advisers

NSW Partnership
ABN 83 236 985 726

Level 10, 1 Margaret Street
Sydney NSW 2000

DX 10173 Sydney Stock Exchange NSW

Tel: 61 2 9251 4100
Fax: 61 2 9240 9821

www.pkf.com.au

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Scheme, approved under the
Professional Standards Act 1994 (NSW)

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF USCOM LIMITED

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for USCOM Limited (the company) for the year ended 30 June 2005.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, under the heading "Remuneration Report" on pages 34 to 37 in the directors' report, as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.



Chartered Accountants
& Business Advisers

NSW Partnership
ABN 83 236 985 726

Level 10, 1 Margaret Street
Sydney NSW 2000

DX 10173 Sydney Stock Exchange NSW

Tel: 61 2 9251 4100
Fax: 61 2 9240 9821

www.pkf.com.au

Liability is limited by the Accountants
Scheme, approved under the
Professional Standards Act 1994 (NSW)

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF USCOM LIMITED (CONT'D)

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion:

1. the financial report of USCOM Limited is in accordance with:
 - (a) The Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 34 to 37 of the directors' report comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

PKF

Chartered Accountants

A New South Wales Partnership

TIM SYDENHAM

Partner

Dated at Sydney this 7th day of September 2005

SHAREHOLDER INFORMATION

Additional information required by Australian Stock Exchange Listing Rules is as follows. This information is current as at 24 August 2005.

Shareholding

(a) Distribution Schedules of Shareholder

Holdings Ranges	Holders No.	Ordinary shares No.	%
1-1,000	197	162,511	0.428
1,001 – 5,000	533	1,625,650	4.278
5,001 – 10,000	142	1,232,741	3.244
10,001 – 100,000	132	3,765,921	9.910
100,001 – 99,999,999,999	25	31,213,177	82.140
Total	1,029	38,000,000	100

(b) Security Classes

Classes	Ordinary shares No.
Fully Paid Ordinary Shares	12,272,500
Fully Paid Ordinary - Escrow 24 months ¹	25,727,500
Total	38,000,000

¹ Escrow period ends on 10 December 2005

(c) The number of shareholdings held in less than marketable parcels is 42.

(d) Substantial Shareholders

The names of the substantial shareholders listed in the holding company's register as at 24 August 2005 are:

Robert Allan Phillips	16,750,000
Gary Desmond Davey	6,259,000
J P Morgan Trust Australia Limited <Bell Medical Innovation A/C>	2,475,000

(e) Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

SHAREHOLDER INFORMATION

(f) Top Twenty Registered Shareholders – Ordinary shares

	Ordinary shares No.	%
Balance at 24 August 2005		
Robert Allan Phillips	16,750,000	44.079
Gary Desmond Davey	6,259,000	16.471
J P Morgan Trust Australia Ltd <Bell Medical Innovation A/C>	2,475,000	6.513
Luke Hamlyn Fay	737,500	1.941
Link Traders (Aust) Pty Ltd	642,151	1.690
Bell Potter Nominees Ltd <BB Nominees A/C>	569,836	1.500
Catholic Church Insurance Ltd	550,500	1.449
Jules Flach	500,000	1.316
Das Menon	368,750	0.970
Matthew Gerard Hollier	368,750	0.970
Helen Marie Bragg	368,750	0.970
Paul William Butler	275,000	0.724
National Nominees Ltd	245,650	0.646
Hinona Pty Ltd <H Wallace Consultant S/F A/C>	200,000	0.526
Aust Executor Trustees NSW Ltd <Grosvenor Pirie master 2 A/C>	188,786	0.497
DRP Cartons (NSW) Pty Ltd	172,459	0.454
Merrill Lynch (Australia) Nominees Pty Ltd	132,750	0.349
Mr Francis Robert Berry	120,000	0.316
Mr Timothy Martin Burroughs	107,500	0.283
Mr Rutherford James Brown & Mrs Sheba Elizabeth Marjorie Brown	105,249	0.277
Total	31,137,631	81.941

Company secretary

Mr Paul Butler

Registered office and principal place of office

Level 7, 10 Loftus Street, Sydney NSW 2000
Telephone: (02) 9247 4144

Registers of securities are held at the following address

Registries Limited, Level 2, 28 Margaret Street, Sydney NSW 2000
Telephone: (02) 9290 9600

Stock Exchange Listing

Quotation has been granted for 12,272,500 ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

Unquoted securities

Shares under escrow

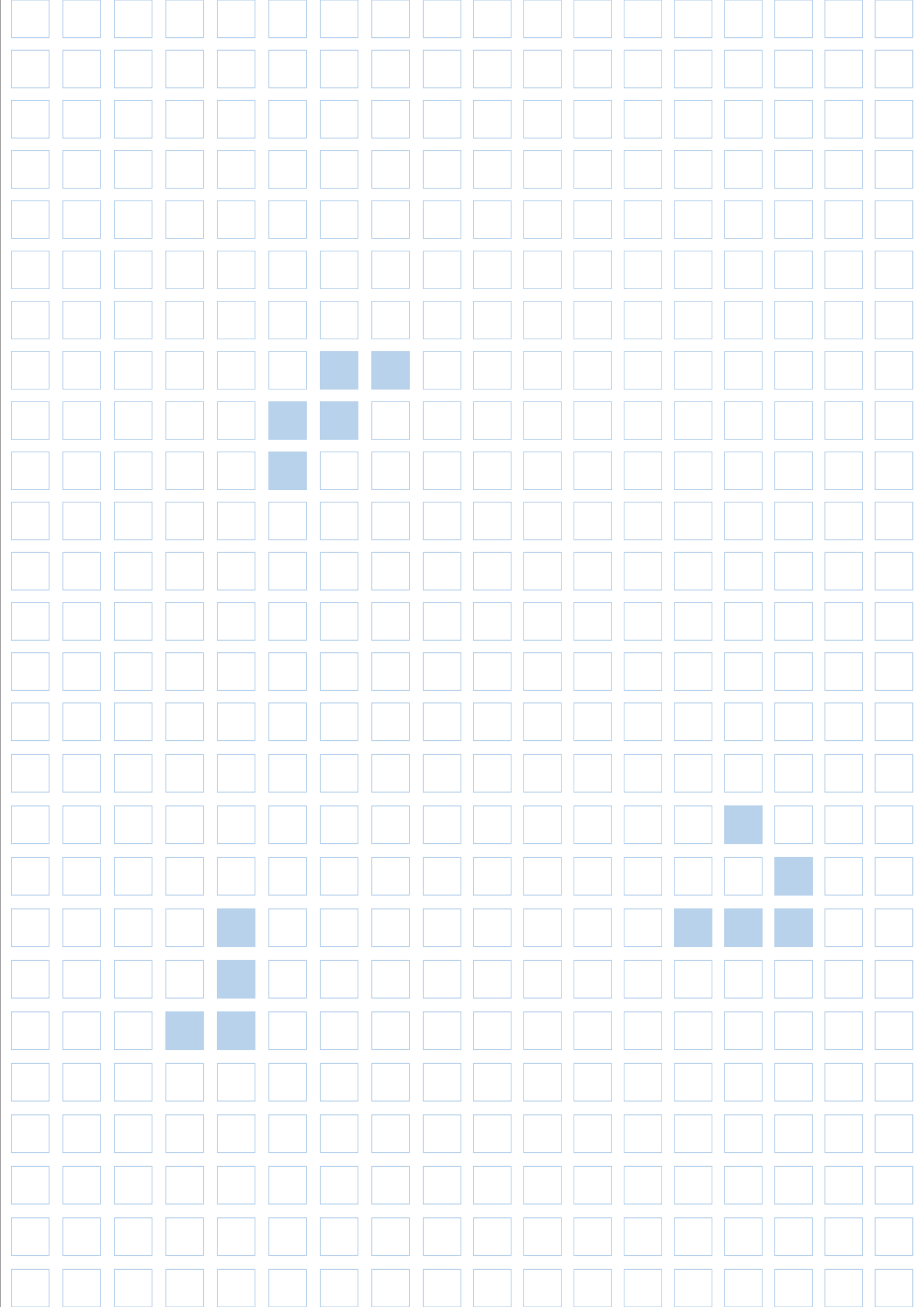
25,727,500 ordinary shares are classified by Australian Stock Exchange as restricted securities, and are required to be held in escrow until 10 December 2005.

Options over unissued shares

A total of 1,124,000 options are on issue. 200,000 options are on issue to five directors, 150,000 options are on issue to five members of advisory board and 774,000 options are on issue to thirteen employees under the USCOM Ltd employee option plan.

NOTES

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USCOM LTD
Ultrasonic Cardiac Output Monitors

Level 7, 10 Loftus St, Sydney NSW 2000 Australia
Phone: +61 2 9247 4144 Fax: +61 2 9247 8157
www.uscom.com.au