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The Directors  
IMD Group Limited  
Level 8  
261 George Street  
Sydney NSW 2000

1 November 2004

Dear Sir

## **Investigating Accountant's Report on pro forma historical financial information**

### **1. Introduction**

This report has been prepared by KPMG in accordance with our engagement letter dated 22 October 2004.

KPMG has been requested to prepare a report on the pro forma historical financial information described in section 2 of this report, which is included in the IMD Group Limited Pro Forma Historical Financial Information attached to this report as Annexure A.

IMD Group Limited has prepared a prospectus dated on or about 1 November and is seeking to raise between \$5 million and \$7 million.

This report has been prepared solely for the directors and IMD Group Limited, and for the directors to lodge a copy of this report with the Australian Stock Exchange. This report has not been prepared for inclusion in a prospectus.

### **2. Pro forma historical financial information**

The pro forma historical financial information, set out in the IMD Group Limited Pro Forma Historical Financial Information attached to this report, comprises the:

- pro forma statements of financial position of IMD Group Limited as at 30 September 2004;  
and
- notes to the pro forma statements of financial position of IMD Group Limited.

The pro forma historical financial information has been derived from the unaudited statement of financial position of IMD Group Limited as at 30 September 2004, adjusted for the pro forma transactions and/or adjustments described in the IMD Group Limited Pro Forma Historical Financial Information. The pro forma historical financial information includes pro forma statements of financial position based on 2 different scenarios, as follows:

- the minimum subscription of \$5 million being achieved
- the maximum subscription of \$7 million being achieved

The pro forma adjustments made to the statement of financial position as at 30 September 2004 of IMD Group Limited are summarised below.

In the case of the minimum subscription of \$5 million being achieved:

- the issue of 25 million ordinary shares in IMD Group Limited pursuant to a prospectus, raising cash funds of \$5 million; and
- the costs directly attributable to the issue of ordinary shares of \$440,000 being offset against the proceeds of the issue.

In the case of the maximum subscription of \$7 million being achieved:

- the issue of 35 million ordinary shares in the IMD Group Limited pursuant to a prospectus, raising cash funds of \$7 million; and
- the costs directly attributable to the issue of ordinary shares of \$560,000 being offset against the proceeds of the issue.

The directors of IMD Group Limited are responsible for the preparation and presentation of the IMD Group Limited Pro Forma Historical Financial Information, including the determination of the pro forma transactions and adjustments.

The pro forma historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

### 3. Scope

#### *Review of pro forma historical financial information*

We have reviewed the pro forma historical financial information in order to report whether anything has come to our attention which causes us to believe that the pro forma historical financial information, as set out in the IMD Group Limited Pro Forma Historical Financial Information attached to this report, has been presented fairly:

- on the basis of the pro forma transactions and adjustments as outlined in Section 2 of this report; and
- in accordance with the recognition and measurement principles described in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by IMD Group Limited as set out in the IMD Group Limited Pro Forma Historical Financial Information.

Our review has been conducted in accordance with Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- a review of work papers, accounting records and other documents;
- a review of the assumptions used to compile the pro forma historical financial information;
- a review of the pro forma transactions and/or adjustments made to the historical financial information, as applicable;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by IMD; and
- enquiry of directors, management and others in relation to the financial information.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.





**4. Review statement on the pro forma historical financial information**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the pro forma historical financial information, as set out in the IMD Group Limited Pro Forma Historical Financial Information attached to this report, has not been presented fairly:

- on the basis of the pro forma transactions and adjustments as outlined in Section 2 of this report; and
- in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by IMD Group Limited disclosed in the IMD Group Limited Pro Forma Historical Financial Information.

**5. Independence**

KPMG does not have any interest in the outcome of the proposed listing of IMD Group Limited on the Australian Stock Exchange, other than in connection with the preparation of this report for which normal professional fees will be received. KPMG is the auditor of IMD Group Limited and, from time to time, KPMG may also provide IMD Group Limited with certain other professional services for which normal professional fees are received.

Yours faithfully

KPMG

**ANNEXURE A – IMD Group Limited Pro Forma Historical Financial Information**

**IMD GROUP LIMITED AND ITS CONTROLLED ENTITIES**  
(ACN 096 048 912)

**CONSOLIDATED AND PRO FORMA STATEMENTS OF FINANCIAL POSITION**

	<b>Note</b>	<b>Consolidated 30 September 2004 \$</b>	<b>Pro Forma (Minimum) \$</b>	<b>Pro Forma (Maximum) \$</b>
<b>Current assets</b>				
Cash	3	44,256	4,604,256	6,484,256
Receivables		43,432	43,432	43,432
Inventories		37,846	37,846	37,846
Other		604	604	604
<b>Total current assets</b>		<u>126,138</u>	<u>4,686,138</u>	<u>6,566,138</u>
<b>Non-current assets</b>				
Plant and equipment	4	218,894	218,894	218,894
Other		52,800	52,800	52,800
<b>Total non-current assets</b>		<u>271,694</u>	<u>271,694</u>	<u>271,694</u>
<b>Total assets</b>		<u>397,832</u>	<u>4,957,832</u>	<u>6,837,832</u>
<b>Current liabilities</b>				
Payables		374,663	374,663	374,663
<b>Total current liabilities</b>		<u>374,663</u>	<u>374,663</u>	<u>374,663</u>
<b>Total liabilities</b>		<u>374,663</u>	<u>374,663</u>	<u>374,663</u>
<b>Net assets</b>		<u>23,169</u>	<u>4,583,169</u>	<u>6,463,169</u>
<b>Equity</b>				
Contributed equity	5	2,309,019	6,869,019	8,749,019
Accumulated losses		(2,285,850)	(2,285,850)	(2,285,850)
<b>Total equity</b>		<u>23,169</u>	<u>4,583,169</u>	<u>6,463,169</u>

Notes to and forming part of the Consolidated and Pro Forma Statements of Financial Position of IMD Group Limited and its controlled entities are set out on the following pages.



## **ANNEXURE A – IMD Group Limited Pro Forma Historical Financial Information**

### **NOTES TO THE CONSOLIDATED AND PRO FORMA STATEMENTS OF FINANCIAL POSITION**

#### **1. Basis for Preparation of the Pro forma Consolidated Statement of Financial Position**

The Pro Forma Consolidated Statements of Financial Position as at 30 September 2004 have been prepared as if the following proposed transactions had taken place as at 30 September 2004:

##### **(a) Pro Forma (Minimum)**

- completion of the issue, pursuant to the Prospectus, of the minimum subscription of 25,000,000 new shares for cash consideration totalling \$5,000,000; and
- the estimated costs of the share issue pursuant to the Prospectus being \$440,000, which are charged against contributed equity.

##### **(b) Pro Forma (Maximum)**

- completion of the issue, pursuant to the Prospectus, of the maximum subscription of 35,000,000 new shares for cash consideration totalling \$7,000,000; and
- the estimated costs of the share issue pursuant to the Prospectus being \$560,000, which are charged against contributed equity.

#### **2. Summary of Significant Accounting Policies**

##### **(a) Going Concern**

The directors have prepared the pro forma historical financial information of IMD Group Limited on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The consolidated entity's ability to continue as a going concern will depend upon the consolidated entity's ability to economically develop, manufacture and distribute a range of medical devices. The directors acknowledge that unless the consolidated entity is successful in this effort, there remains uncertainty as to whether the consolidated entity will be able to continue as a going concern without substantially curtailing its operations.

Should the IMD Group Limited and its controlled entities be unable to continue as a going concern, it may be required to realise its assets and extinguish liabilities other than in the normal course of business and at amounts that differ from those stated in the Pro forma Consolidated Statement of Financial Position.

The Pro forma Consolidated Statements of Financial Position do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity be unable to continue as a going concern.

##### **(b) Basis of Accounting**

The Pro forma Consolidated Statements of Financial Position as at 30 September 2004 have been drawn up in accordance with the recognition and measurement principles of Australian Accounting Standards and other mandatory professional reporting requirements in Australia, being Urgent Issues Group Consensus Views.

The pro forma historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial report prepared in accordance with the Corporations Act 2001.

## ANNEXURE A – IMD Group Limited Pro Forma Historical Financial Information

### NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### 2. Summary of Significant Accounting Policies (cont'd)

##### (c) Recoverable Amount of Non-Current Assets

Where the carrying value of non-current assets exceeds their recoverable amount, the assets are written down to their recoverable amount. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

##### (d) Financial Instruments

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit, consistent with the statement of financial position classification of the related debt or equity instruments. Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

##### (e) Plant and equipment

All assets acquired including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

##### *Useful lives*

All items of plant and equipment, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

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

##### (f) Payables

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

##### (g) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Trade debtors to be settled within normal terms are carried at amounts due.

##### (h) Inventory

Inventory is recorded at the lower of cost and net realisable value.

##### (i) Principles of consolidation

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

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

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



# ANNEXURE A – IMD Group Limited Pro Forma Historical Financial Information

## NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Consolidated 30 September 2004 \$	Pro Forma (Minimum) \$	Pro Forma (Maximum) \$
<b>3. Cash assets</b>			
Balance at 30 September 2004	44,256	44,256	44,256
<i>Add:</i>			
Issue of shares	-	5,000,000	7,000,000
<i>Deduct:</i>			
Costs of the issue	-	(440,000)	(560,000)
	<u>44,256</u>	<u>4,604,256</u>	<u>6,484,256</u>
<b>4. Plant and equipment</b>			
Plant and equipment	233,506	233,506	233,506
<i>Less:</i> Accumulated depreciation	<u>(14,612)</u>	<u>(14,612)</u>	<u>(14,612)</u>
	<u>218,894</u>	<u>218,894</u>	<u>218,894</u>
<b>5. Contributed Equity</b>			
Fully paid ordinary shares	2,308,019	2,308,019	2,308,019
Fully paid ordinary shares issued pursuant to the Prospectus	-	5,000,000	7,000,000
Less share issue costs	-	(440,000)	(560,000)
Performance Shares	1,000	1,000	1,000
	<u>2,309,019</u>	<u>6,869,019</u>	<u>8,749,019</u>
	<b>Consolidated 30 September 2004 Number</b>	<b>Pro Forma (Minimum) Number</b>	<b>Pro Forma (Maximum) Number</b>
<b>Fully Paid Ordinary Shares</b>			
Fully paid ordinary shares on issue	49,900,264	49,900,264	49,900,264
Fully paid ordinary shares issued pursuant to the Prospectus	-	25,000,000	35,000,000
	<u>49,900,264</u>	<u>74,900,264</u>	<u>84,900,264</u>
<b>Performance Shares</b>			
Performance shares on issue	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>



## **ANNEXURE A – IMD Group Limited Pro Forma Historical Financial Information**

### **5. Contributed Equity (cont'd)**

The Performance Shares are subject to a performance hurdle which, if met, will result in each Performance Share converting to one fully paid ordinary share. If the performance hurdle is not met each Performance Share will convert to 1/100,000th of a fully paid ordinary share.

The performance hurdle is that IMD Group Limited and its controlled entities reports a net profit attributable to members of the parent entity before income tax and adjusted for interest of greater than \$0 for any six month reporting period to 31 December or 30 June commencing in the first 3 years after the Company is listed on the ASX.

### **6. Implications of International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005, IMD Group Limited must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board.

All financial information disclosed in this document has been prepared in accordance with generally accepted accounting principles in Australia ("Australian GAAP"). No attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

Management has not quantified the effects of the differences between IFRS and Australian GAAP. Accordingly, there can be no assurances that the consolidated financial performance and/or position of IMD Group Limited as disclosed would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to IMD Group Limited's financial statements in the future. You should consult your own professional advisers for an understanding of the differences between Australian GAAP and IFRS.