ANNUAL REPORT

COSMOS LIMITED
AND ITS CONTROLLED ENTITIES
ABN 25 000 091 305

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CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Cosmos Limited has successfully continued to increase its ongoing revenue streams and improve its products during a difficult year. The strategic plan for the company enabled the acquisition of Australian Manufacturers **("AMFAC")** business in January 2003. This acquisition has challenged management during the integration process, which is due to be finalised later this year. Completion of that process will enable the company to realise further operational economies.

During this year, revenues increased significantly to $21m, a 42% improvement over the prior year. After taking tax, depreciation, amortisation and the $1.6m (2002: $8.3m) write down of intangibles, the loss after interest of $8.2m is a significant improvement on the prior year loss of $17.6m. A proportion of the revenue increase can be attributed to the acquisition of AMFAC and the growth of several vertical channels in the electronic bill presentment and payment division of the company.

The company completed a capital raising of $0.6m during the year. This initiative was strongly supported by our major shareholders who have continued to support the company, its strategy and management, with a further raising expected of $6.2m after 30 June 2003.

The Board of Directors has continued to focus upon the restructuring and transformation of the company to maximise shareholders returns.

The first half of the year proved to be exceptionally good while the second half of the year became challenging with delayed delivery schedules combined with a major acquisition for the Group resulting in sales targets not being achieved. The company envisages that these targets will be recovered during the coming year.

After reviewing operating results for the year, consistent with their practice in 2002 the Directors, with their advisors, re-appraised the carrying value of intangibles viz goodwill and intellectual property. The Directors concluded that it would be prudent to write down these carrying values to better reflect the future economic benefits arising from existing business and customer relationships. Accordingly, $1.6m was charged to the year's profit and loss account to give a loss from ordinary activities of $8.2m. This step has no impact on the Group's cash flow.

Recent cost reduction and price re-evaluation strategies continue to improve the cash flow of the company. With embedded revenues of $14m in hand, compared to $8m at this time last year, a sound pipeline of new business prospects together with a finalisation of the post report date capital raising, the Directors believe that this will result in a stronger performance for the new financial year.

The last financial year has been an eventful year of transition for Cosmos Limited. Cosmos has dealt with many historical difficulties and has begun to harvest some of the future benefits that result from its ability to consolidate a retail business and a funds payment business into a seamless service delivery engine.

Cosmos remains Australia's leading provider of transaction processing and point of sale solutions. The company has reinforced its position in this environment by the acquisition of AMFAC which makes Cosmos the significant provider of retail solutions in the pharmacy market.

Retail Division

Relationships with major customers such as My Chemist, Liquorland and Foodland continue to evolve strongly. The addition of AMFAC to the retail division has been a great benefit with a detailed physical, logical and financial integration plan currently in progress.

This year saw the provision of fully integrated service solutions into the pharmacy market harnessing our pharmacy and funds transfer business. The two new services, one called Pharmastream and one called Pharmalife have been very well received by the pharmacy market and also have provided a guide to the Health Insurance Commission ("**HIC**") to demonstrate that the integration of funds transfer and point of sale business within pharmacy has been realised by Cosmos.

Another exciting development integrating our pharmacy technology and our funds transfer technology, has been the provision of funds transfer payment services to the Sydney Eye Clinic™, which is the premier eye

CHAIRMAN AND MANAGING DIRECTOR'S REPORT (continued)

surgical service provider in Australia and represents another step forward in a large, increasingly integrated, health market.

The national branch network has continued to mature and has now been regionalised producing an increased focus on new sales and service.

Payments Division (E-C Commerce)

The past year has seen the payments division continue to grow rapidly with sales increasing 166% from $1.88m to $5.0m. The business continues to migrate customers, business and financial institutions to our electronic payments solutions.

The Real Estate channel continues to grow steadily, albeit at a slower rate than anticipated, but with an increase in fees this service continues to provide a growing profitable revenue stream, doubling its revenue to $3.3m in the 12 month period.

Overall, the payments division has increased its client base by 32% and the number of transactions processed has increased 80% over the previous year and with continuing new opportunities, including the internationalisation of this business, the company should continue to see excellent growth in all areas.

Continued Restructuring

Cosmos continues to consolidate its varied interests into a streamlined and efficient management and organisational structure. Three accounting systems from its three business units will be consolidated into one in the 2003/2004 year. The corporate structure has been simplified and the management hierarchy continues to flatten. Management numbers have fallen from 12 to 5, customer support areas continue to grow and a complete integration of customer service, finance and administration is anticipated during this financial year.

Outlook

The Board and management have received approaches from the market during this financial year with interests in both the pharmacy and the funds transfer marketplaces. These approaches include initiatives from international organisations that are desirous of both assisting in the growth of Cosmos and in exporting various parts of the Cosmos intellectual property to different geographical locations. These initiatives are being actively pursued.

Cosmos has much to do in the continuing integration of its point of sale and funds transfer and dispense businesses and these will occupy most of management time in the coming financial year. A test is planned for the Health Insurance Commission for the first quarter 2004 and this will crystallise our company's ability to integrate point of sale pharmacy dispense and funds transfer in the health industry. 2004 will see Cosmos move from a service provider to a trading company as we exploit the opportunities that are being provided to us by an increasingly attentive market place.

On behalf of the Board, I thank all Cosmos' staff and management for their efforts during the past year, together with the co-operation of Cosmos' customers and suppliers, and the consistent support of its major shareholders.

Chairman: H J Preston Date: 2nd October 2003

Managing Director: Bob Lyon . Date: 2nd October 2003

CORPORATE GOVERNANCE STATEMENT
Cosmos Limited and its controlled entities for the year ended 30 June 2003

Board of Directors and its Committee

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Board processes

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

The full board currently holds 12 scheduled meetings each year, plus strategy meetings and any extraordinary meetings at other such times as may be necessary to address any specific significant matters that may arise.

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

Composition of the Board

Dr. Henry Preston (Chairman)	(appointed 20 February 2002)	Non-Executive
Dr. Robert F Tynan	(appointed 28 May 2002)	Executive
Mr. Nigel C Purves	(appointed 26 November 2002)	Executive
Mr. John B Burrows	(resigned 26 November 2002)	Non-Executive

Conflict of interest

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

Nomination Committee

The Nomination Committee oversees the appointment and induction process for directors. It reviews annually the composition of the Board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Nomination Committee is also responsible for the selection appointment and succession planning process of the Group's Chief Executive Officer "CEO".

The Nomination Committee comprised the following members during the year:

Dr. Henry Preston (Chairman)	Non-Executive
Dr. Robert F Tynan	Executive
Mr. Nigel C Purves	Executive

Nomination Committee (continued)

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

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

Director education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations.

Directors dealing in Group shares

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

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

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

Independent professional advice and access to Group information

Each director has the right of access to all relevant Group information and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent advice at the consolidated entity's expense. A copy of advice received by the director is made available to all other members of the Board.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. It evaluates the performance of the incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are set to attract and retain the most qualified and experienced directors and senior executives. The Remuneration Committee did not meet during the year.

The members of the Remuneration Committee during the year were:

Dr. Henry Preston (Chairman)	Non-Executive
Dr. Robert F Tynan	Executive
Mr. Nigel C Purves	Executive

Audit Committee

The members of the Audit Committee during the year were:

Dr. Henry Preston (Chairman)	Non-Executive
Mr. Nigel C Purves	Executive
Mr. John B Burrows	Non-Executive

The external auditors are invited to Audit Committee meetings at the discretion of the Committee. The Audit Committee met twice during the year.

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

The responsibilities of the Audit Committee include:

- Reviewing the annual, half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance within Australian Accounting Standards and generally accepted accounting principles.
- Monitoring corporate risk assessment.
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence.
- Reviewing the nomination and performance of the external auditor.
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commissions, ASX and financial institutions.

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

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

Internal control framework

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

- Financial reporting – monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.
- Continuous disclosure – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Group's securities and notify them to the ASX and post them on the Group's web site. The CEO and the Director of Finance/Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communication with the ASX.
- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are acquired or divested.

Business risk management

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

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

Further details of the Group's policies relating to interest rate management and credit risk management are included in Note 20 to the financial statements.

Comprehensive practices are established such that:

- Capital expenditure and revenue commitments above a certain size require prior Board or Management approval.
- Financial exposures are controlled.
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- Business transactions are properly authorised and executed.

Ethical standards

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

Over the coming year the directors are committed to the full development of an ethical standards manual and company policies.

The role of shareholders

The Board informs shareholders of all major developments affecting the consolidated entity's state of affairs as follows:

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.
- Information meetings are held in States around Australia on a regular basis to provide shareholders with information and an opportunity to meet members of the Board and senior management.

All documents that are released publicly are made available on the consolidated entity's internet web site at www.cosmos.com.au.

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

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

DIRECTORS REPORT

The directors present their report together with the financial report of Cosmos Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2003 and the auditor's report thereon.

Directors

The names of directors in office at any time during or since the end of the year are:

Information on directors

Dr. Henry Preston	Non-executive director appointed 20 February 2002 Age 49
Qualifications	Bachelor of Medicine & Bachelor of Surgery Melbourne University MB BS FRCPA MIAC AIMM
Experience	Dr. Preston is a specialist medical practitioner in the field of Pathology. He also has a background in accounting and small business operating both in retail and manufacturing. During the 1990's he was Managing Director of Hitech Pathology in Melbourne which was the fastest organically growing business of its kind in Australia year on year. Following the sale of his business in 2000, Dr Preston was CEO of the merged Hitech and Melbourne Pathology businesses with a combined staff of 1000 and turnover of approx. $80 million until his resignation in 2001.
Special Responsibilities	Chairman, Audit Committee, Nomination Committee, Remuneration Committee
Interest in shares and options	6,694,529 fully paid ordinary shares
Dr. Robert F Tynan	Executive director appointed 28 May 2002 Age 51
Qualifications	Bachelor of Medicine & Bachelor of Surgery (MB BS) from the University of New South Wales; Masters in Business Administration (MBA) from the Macquarie University
Experience	Appointed Managing Director May 2002. Prior to joining the Company Dr. Tynan began in a medicine practice as the Rehabilitation Registrar at the Royal North Shore Hospital in Sydney in 1983. Following this he joined Grace Bros as Merchandise Manager. After completing his MBA he joined Lend Lease in their emerging communications division. He managed the creation of SITEL New Zealand where he was the foundation CEO. He moved to Detroit in February 1999 for SITEL Asia Pacific to complete contract negotiation, signing and managed the creation and delivery of a US $650 million 5-year outsourcing contract with General Motors. In July 2000, he joined Combined Communications Network (CCN) as CEO and Managing Director. There he completed the Due Diligence and Prospectus Creation Process, leading the company to an over subscribed listing on the Australian Stock Exchange in November 2000.
Special Responsibilities	Managing Director, Nomination Committee, Remuneration Committee
Interest in shares and options	4,000,000 options

Information on Directors (continued)

Mr. Nigel C Purves	Executive director appointed 26 November 2002. Age 49
Qualifications	Bachelor of Finance and Administration from University of New England, Diploma of Finance Management from University of New England and M.B.A. Bowling Green State University Ohio, USA. Fellow of the CPA's and Company Secretaries and Managers.
Experience	Mr. Purves has over 20 years experience working at a senior executive level within publicly listed companies both in Australia and internationally across broad fields such as property development, media, defence, manufacturing and technology.
Special Responsibilities	Chief Financial Officer, Company Secretary, Audit Committee, Nomination Committee and Remuneration Committee
Interest in shares and options	Nil
Mr. John B Burrows	Resigned 26 November 2002 Age 63
Qualifications	Bachelor of Commerce from the University of Melbourne, a Fellow of the Institute of Chartered Accountants in Australia, and a member of the Australian Institute of Company Directors.
Experience	Chairman of Recruitment Solutions Limited and a Director of Solution 6 Holdings Limited, formerly a Director of Rothschild Australia Asset Management Limited. Formerly a Chartered Accountant with broad experience as a financial consultant, accountant and auditor. He has worked on manufacturing, retailing, oil production and service, banking and insurance broking assignments in Spain, Portugal, Singapore, Malaysia, The Philippines, Thailand, Indonesia, Hong Kong, as well as Australia and New Zealand. He was a Trustee of the Committee for Economic Development of Australia and a member of that organisation's Board of Directors. John remains an honorary trustee of that organisation. He was also a Governor of The Sydney Institute and a member of the Board of The Bell Shakespeare Company.
Special Responsibilities	Audit Committee
Interest in shares and options	2,689,058 fully paid ordinary shares

Principal activities

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

- Operating a retail technology business providing Point of Sale (PoS) software, hardware and support services to specialist retail industry sectors through its controlled entities PharmaSol Pty Ltd and Surefire Systems Pty Ltd; and
- Operating a transaction processing business providing electronic bill payment funds transfer and processing services.

Results of operations

The consolidated loss after income tax amounted to $8.2 million (2002:$17.6 million). It should be noted that included in this loss is the write down of goodwill amounting to $1.6 million (after tax). In 2002 the write-down of goodwill and intangibles amounted to $8.3 million (after tax).

Review of operations

The Company pursued two avenues of business; Retail Technology and Transactions Processing. Funds raised during the year were deployed in the operating the businesses.

Retail Technology

PharmaSol Pty Ltd is the market leader of the Australian pharmacy market in PoS and dispensing applications. It has a solid platform and a growing market share. Surefire Systems Pty Ltd, developers of solutions to the grocery, liquor and newsagency industries reinforces our presence in the retail solutions market and our ability to access specialised industry sectors. Surefire's expertise in software development and its existing contracts with corporate retailers have made it a valuable contributor to our entire retail technology business

Dynsol Pty Ltd trading as AMFAC, with the AMFAC acquisition, has supported PharmaSol as the market leader in the pharmacy PoS and dispense market. AMFAC remains a major player in the pharmacy software marketplace, with operations in most Australian states. One of the major areas of expansion is the largely untapped private and hospital dispense market which is the same size as the pharmacy market.

Sales for the current year for the Retail technology business of $15.1 million, including $1.8 million for AMFAC was an increase of 17.7% on the preceding year. The loss of $5.5 million was improvement of 46.0% on the preceding year, primarily due to reduced write-downs of the carrying values of intangibles.

Transactions Processing

Cosmos E-C Commerce Limited has been involved in the electronic transactions and payments business for a number of years, focussing on corporate clients. Cosmos is the leading non-bank transaction-processing provider, with exclusive agreements with all major Real Estate franchise groups to provide payment processing to rental tenants.

Sales for the current year of $5.0 million, was an increase of 165.6% on the preceding year. The loss of $0.3 million was an improvement of 96.6% on the preceding year, primarily due to greatly increased revenue and the containment of expenses.

Dividends

No dividends have been paid or declared by the Company to members since the end of the previous financial year.

State of affairs

(i) During the year ended 30 June 2003, the Company reviewed the carrying value of Goodwill and determined that based on discounted cashflows, the Goodwill was carried at above recoverable amounts. An expense of $1.6 million after tax was made to write-down the carrying value of Goodwill to its recoverable amounts.

(ii) During the current year, an agreement was reached with the Company's former legal advisors, Coudert Brothers, to fully settle outstanding fees and disbursements in return for the issue of 8,450,000 fully paid ordinary shares. As a result of the settlement, a gain of $0.9 million is reflected in the consolidated result. The shares were issued subsequent to the year end.

(iii) As a result of the AMFAC acquisition in January 2003, revenue of $1.8 million is reflected in the consolidated result. The net assets at the date of acquisition were $0.3 million and consideration paid was $2.2 million. Goodwill on acquisition is $1.9 million.

(iv) On 5 May 2003, the Company issued 605,000 Unsecured Convertible Notes at $1 each for working capital purposes. The Convertible Note document stated that Notes would not be issued to an applicant unless the consideration payable by that applicant was at least $500,000. These Convertible Notes were not issued in accordance with the terms and conditions of the Convertible Note document and the Company is in process to amending this Convertible Note document to remove this clause from the agreement. Each $1 note converts into 12.5 shares for each note at $0.08 per share, and attracts interest at 10% p.a. Conversion at the option of the Note holder into ordinary fully paid shares occurs in the period between 30 April 2004 and 30 April 2006.

(v) On 27 February 2003, the Company entered into a loan with Happle Pty Ltd for $1 million at a rate of 10% interest per annum, for working capital purposes.

(vi) The Company reached payment arrangement with the Australian Taxation Office ("ATO") in relation to amounts due from the last 3 years for GST, Superannuation, Group tax and Payroll tax.

(vii) The Company issued 1,562,500 fully paid ordinary shares at $0.08 per share to Hednesford Pty Ltd in settlement of fees for services rendered in respect of assisting with the Company's fund raising.

(viii) On 9 August 2002, the Company issued 2,586,207 fully paid ordinary shares for a total value of $150,000 being interest payable on the Pharmasol Pry Limited preference shares to TDH No.2 Investments Pty Limited for the six months period to 10 July 2002.

(ix) On 14 August 2002, the Company announced that a new agreement had been finalised with Australian Pharmaceutical Industries (API) for the use, under licence, of Cosmos new web site solution incorporating e-commerce functionality with secure online payments.

(x) On 26 May 2003, the Company released from escrow 1,666,667 fully paid ordinary shares. These shares were issued on 25 May 2001 under a 2 year escrow period to acquire a 30% interest in the business, of Cosmos E-C Commerce Limited.

Events subsequent to reporting date

(i) The Company have received commitments from major shareholders to provide $6.2 million in funding to the Company. Funds will be used for the following:
   - provide medium term (3 year) funding sufficient to enable the Company to discharge its outstanding liabilities to the ATO;
   - to consolidate the main funding facilities to the Company;
   - to provide sufficient working capital to complete the Company's restructuring programs that will significantly reduce the Company's cash requirement.

(ii) On 28 August 2003, the Company issued 6,000,000 fully paid ordinary shares issued at $0.025 being consideration for interest payment to TDH No.2 Pty Ltd for the period to 10 July 2003 under the terms of the preference share issue.

Events subsequent to reporting date (continued)

(iii) 16,639,555 ordinary shares (including 2,508,361 ordinary shares to TDH No.2 Pty Ltd for interest payment for the period to 10 July 2002 and 8,450,000 fully paid ordinary shares to Coudert Brothers) and 4,500,000 options was approved by shareholders at the annual general meeting of the Company held on 28 November 2002. These shares were subsequently issued on 22 July 2003.

Likely developments

The Board and management see significant room to improve shareholder value in the next year.

We are continuing to make significant inroads into the non-banking sector for transactions solutions and electronic payments. The joint development of the “Medical Marketplace” which combines the strength of our pharmacy PoS business with our E-Commerce business will give us significant upside for both data warehousing, as well as funds transfer. It will also herald the development of further large scale industry offerings. These developments and our existing and restructuring strategies are on target and provide a solid base for our newly integrated business to move forward into an exciting new phase.

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

Environmental regulation

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

Directors' and Executive Officers' emoluments

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

- The Non-Executive Directors have again agreed not to take fees during the past financial year.
- The remuneration structure for executive officers, including executive directors, seeks to emphasise payment for results through providing various reward schemes based on performance, for example the incorporation of incentive payments based on the achievement of sales targets.
- The objective of the reward schemes is to both reinforce the short and long term goals of the consolidated entity and to provide a common interest between management and shareholders.
- The emoluments of each Director and each of the five Executive Officers receiving the highest emoluments are as follows:

	Base Emolument	Bonus	Superannuation Contributions	Non-Cash benefits Other	Non-Cash benefits options	Total
	$	$	$	$	$	$
DIRECTORS						
Dr. R Tynan	300,000	-	10,519	-	27,604	338,123
Dr. H Preston	-	-	-	-	-	-
Mr. N Purves	140,000	-	-	-	-	140,000
Former						
Mr. J Burrows	-	-	-	-	-	-
EXECUTIVE OFFICERS (excluding directors)						
The Company						
Current						
Mr. A Picard	137,500	-	9,642	42,390	-	189,532
Mr. J P Le Loch	78,999	-	7,110	33,866	-	119,975
Mr. R Bark	53,333	-	5,400	-	-	58,733
Mr. M Lewis	40,133	-	2,578	-	-	42,711
Mr. J Atherton	30,000	-	2,025	-	-	32,025
Consolidated Entity						
Current						
Mr. A Picard	137,500	-	9,642	42,390	-	189,532
Mr. D Corrigan	185,433	88,535	9,587	-	-	283,555
Mr. J. Collins	215,000	-	10,519	-	13,202	238,721
Mr. D Cooper	97,761	19,518	9,107	-	-	126,386
Mr. M Lewis	120,875	-	10,519	-	-	131,394
Former						
Mr. D Workman	97,791	31,919	9,943	-	-	139,653
Mr. V Decarvalho	130,000	-	8,480	-	-	138,480

Directors' and Executive Officers' emoluments (continued)

Options

The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed in the table of directors and senior executive emoluments is the portion of fair value of the options allocated to the reporting period ended 30 June 2003.

The following factors and assumptions were used in determining the fair value of options at grant date:

Grant date	Expiry date	Exercise price	Price of shares on grant date	Estimated volatility %	Risk free interest rate %	Dividend yield %
Series 1 1/04/99	1/04/04	$0.30	$0.220	133%	5.39%	NIL
Series 2 28/11/02	28/11/05	$0.065	$0.059	128%	4.96%	NIL
Series 3 28/11/02	28/11/05	$0.13	$0.059	128%	4.96%	NIL
Series 4 8/01/03	28/11/05	$0.15	$0.060	124%	4.73%	NIL

The estimated volatility approximates historic volatility. The estimated life of all options is between 2 years and 11 months to 5 years. Each option entitles the holder to purchase one ordinary share in the Company.

All options expire on the earlier of their expiry date or termination of the employee's employment. Each option series is subject to the following vesting conditions:

Series 1:	3 years from the date of grant.
Series 2 & 3:	When the five-day weighted trading price of the Company's shares is or exceeds $0.23 cents per share.
Series 4:	50% of the options vest 12 months after their original grant date and the remaining 50% at the option vest 24 months after their original grant.

In determining fair value, it has been assumed that these performance hurdles have a 100% probability of being met.

Options Issued

During the year or since the end of the financial year, the Company granted options as follows:

Issued to	No of options	Exercise Price	Expiry Date
Dr. R Tynan	2,000,000	0.065	28/11/05
Dr. R Tynan	2,000,000	0.13	28/11/05
Mr. J Collins	500,000	0.15	28/11/07

At the date of this report options outstanding or expired of the Company are:

	No of options	Exercise Price	Expiry Date
Options outstanding	240,000	0.30	01/04/04
	1,920,000	0.50	27/05/04
	5,500,000	0.25	17/10/03
	5,500,000	0.30	17/10/03
	4,000,000	0.40	26/04/04
	2,000,000	0.065	28/11/05
	2,000,000	0.13	28/11/05
	500,000	0.15	28/11/07
Expired during current period	2,000,000	0.25	18/05/03
	2,000,000	0.23	31/01/03
	1,000,000	0.40	14/06/03
	1,000,000	0.30	22/03/04
	4,000,000	0.40	22/03/04
	2,000,000	0.40	18/05/05

No options were exercised during the year.

Meetings of Directors

The number of directors meetings, including meetings of the Audit, Remuneration, and Nomination Committees and the number of meetings attended by each of the directors of the Company during the financial year are:

	DIRECTORS MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dr. H Preston	12	12	2	2	-	-	-	-
Dr. R Tynan	12	12	-	2	-	-	-	-
Mr. N Purves	7	7	1	1	-	-	-	-
Mr. J Burrows	4	4	1	1	-	-	-	-

Indemnification and insurance of directors

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

Insurance premiums

Since the end of the previous financial year the Company has not paid any insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities.

Rounding off

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

Dated at Sydney this 1st day of October 2003

Signed in accordance with a resolution of the directors:

Dr. Henry Preston
Chairman

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 June 2003

	Note	Consolidated		The Company	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
Revenue from sale of goods	2	5,302	7,365	-	-
Revenue from rendering of services	2	14,772	7,368	-	-
Other revenue from ordinary activities	2	943	58	3	23
Total revenues from ordinary activities		21,017	14,791	3	23
Materials and consumables used		(5,788)	(5,168)	-	-
Employee expenses		(13,865)	(10,163)	(2,001)	(1,318)
Occupancy expenses		(2,172)	(1,317)	(168)	(23)
Research and development costs	3	(408)	(388)	-	-
Marketing expenses		(234)	(690)	-	-
Depreciation and amortisation expense	3	(1,968)	(3,135)	(41)	(43)
Borrowing costs	3	(562)	(239)	(169)	(148)
Write off assets and investments	3	(1,645)	(8,322)	(5,268)	(11,719)
Other expenses from ordinary activities		(2,581)	(3,009)	(258)	(1,459)
Loss from ordinary activities before related income tax expense		**(8,206)**	**(17,640)**	**(7,902)**	**(14,687)**
Income tax expense relating to ordinary activities		-	-	-	-
Net loss from ordinary activities after related income tax expense		**(8,206)**	**(17,640)**	**(7,902)**	**(14,687)**
Net loss attributable to outside equity interests		-	-	-	-
Net loss attributable to members of the parent entity		**(8,206)**	**(17,640)**	**(7,902)**	**(14,687)**
		$	$		
Basic loss per share	29	(0.034)	(0.092)		
Diluted loss per share	29	(0.034)	(0.092)		

There are no non-owner related transaction changes in equity for the years ended 30 June 2003 and 2002.

The statements of financial performance are a to be read in conjunction with the notes to the financial statements set out on pages 21 to 49.

STATEMENTS OF FINANCIAL POSITION AS AT 30 June 2003

	Note	Consolidated		The Company	
		2003	2002	2003	2002
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash assets	6	24	1,777	9	12
Receivables	8	1,763	1,608	-	8
Inventories	9	466	776	-	-
Other	10	576	161	332	41
Total Current Assets		**2,829**	**4,322**	**341**	**61**
NON-CURRENT ASSETS					
Receivables	8	-	-	-	7,827
Investments	11	-	-	-	-
Property, plant and equipment	13	1,174	1,377	55	82
Intangible assets	14	6,805	8,000	-	-
Total Non-Current Assets		**7,979**	**9,377**	**55**	**7,909**
Total Assets		**10,808**	**13,699**	**396**	**7,970**
CURRENT LIABILITIES					
Payables	15	11,797	9,472	1,291	1,882
Interest-bearing liabilities	16	4,024	2,355	2,514	1,932
Provisions	17	594	463	81	19
Total Current Liabilities		**16,415**	**12,290**	**3,886**	**3,833**
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	16	1,083	203	-	-
Provisions	17	49	29	-	-
Total Non-Current Liabilities		**1,132**	**232**	**-**	**-**
Total Liabilities		**17,547**	**12,522**	**3,886**	**3,833**
Net (Liabilities)/Assets		**(6,739)**	**1,177**	**(3,490)**	**4,137**
EQUITY					
Contributed equity	18	61,315	61,040	61,315	61,040
Accumulated losses	19	(70,274)	(62,068)	(64,805)	(56,903)
Total parent entity interest		**(8,959)**	**(1,028)**	**(3,490)**	**4,137**
Outside equity interest	30	2,220	2,205	-	-
Total Equity		**(6,739)**	**1,177**	**(3,490)**	**4,137**

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 21 to 49.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 June 2003

	Note	Consolidated		The Company	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from customers		20,570	16,622	-	-
Payment to suppliers and employees		(21,911)	(19,472)	(323)	(4,872)
Interest received		16	21	3	9
Interest and other cost of finance paid		(532)	(173)	(169)	(137)
Net cash used in operating activities	7	(1,857)	(3,002)	(489)	(5,000)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		(166)	(265)	(34)	(91)
Proceeds for sales of property, plant and equipment		-	13	-	13
Payment for purchase of new business	12c	-	-	-	-
Net cash used in investing activities		(166)	(252)	(34)	(78)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of securities (Shares,Options,etc)		-	5,362	-	5,362
Proceeds from borrowings		1,805	308	1,805	314
Repayment of borrowings		(1,144)	(600)	(1,070)	(600)
Issue of loan		(215)	-	(215)	-
Finance lease payments		(176)	(432)	-	-
Net cash provided by financing activities		270	4,638	520	5,076
Net increase / (decrease) in cash held		(1,753)	1,384	(3)	(2)
Cash at the beginning of the financial year		1,777	393	12	14
Cash at the end of the financial year	6	24	1,777	9	12

The statements of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 21 to 49.

Note 1: Statement of significant accounting policies

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

a. **Basis of Preparation**

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

Historical cost

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

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

Going concern basis

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred an operating loss of $8.2 million during the year ended 30 June 2003 (decreased from a loss of $17.6 million for the year ending 30 June 2002) and had net current liabilities of $13.6 million.

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

- Subsequent to year-end, Cosmos Limited signed agreements for funding from existing shareholders for $6.2 million, the Company has received $5.9 million as at the date of this financial report;
- The Directors reached an agreement with the ATO and entered into a payment arrangement in relation to sums due for the last three years for GST, superannuation, group and payroll tax; and
- The directors believe that the consolidated entity will generate positive net cash flows from operating and funding activities over the next 12 months.

The consolidated entity's ability to generate positive net cash flows over the next 12 months from the date of this report, as contemplated in the business strategy is dependent on several key factors. Retention of current recurring revenue, success in the Cosmos Real Estate payments product, the PoS rollout into the API pharmacies, the successful integration of the AMFAC acquisition, successful implementation of certain cost reduction plans and receipt of funding from signed agreements from existing shareholders.

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

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

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

Note 1: Statement of significant accounting policies (continued)

b. **Principles of consolidation**

Controlled entities

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

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

Transactions eliminated on consolidation

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

c. **Revenue recognition**

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

Sale of goods

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

Rendering of services

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

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

Interest revenue

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

Sale of non-current assets

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

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

d. **Goods and services tax**

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

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

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

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

e. **Foreign currency transactions and balances**

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

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

Note 1: Statement of significant accounting policies (continued)

f. **Borrowing costs**

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

g. **Taxation**

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

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

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

h. **Earnings per share**

Basic earnings per share

Basic EPS earnings are calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS earnings are calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with the executive share options.

The diluted EPS weighted average number of shares includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for nil consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive ordinary shares is based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share issue.

i. **Acquisition of assets**

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

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

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

Note 1: Statement of significant accounting policies (continued)

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

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

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

Assets are depreciated or amortised from the date of acquisition.

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

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

	2003	2002
Property, plant and equipment		
Leasehold improvements	2.5-20%	2.5-20%
Plant and equipment	13-40%	13-40%
Leased plant and equipment	13-40%	13-40%
Intangibles		
Goodwill	10 years	10 years
Intellectual property	5-10 years	5-10 years

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

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

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

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

Finance leases
Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced

by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Note 1: Statement of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Note 1: Statement of significant accounting policies (continued)

s. **Employee benefits**

Wages, salaries and annual leave, sick leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

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

Long service leave
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows resulting from employee's services provided to reporting date. The provision is calculated using expected future increases in the wage and salary rates including related on-costs and expected settlement dates based on turnover history.

Superannuation plan
The Company and controlled entities contribute to several employee defined contribution superannuation funds. The contributions are recognised as an expense as they are made. Contributions are limited to the prescribed charged percentage as determined under the Superannuation Guarantee Scheme.

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

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

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

t. **Provisions**

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

u. **Changes in accounting policy**

Unless disclosed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows:

Employee benefits
The consolidated entity has applied the revised AASB 1028 "Employee Benefits" for the first time from 1 July 2002.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the consolidated entity expects to pay as at each reporting date, not wage and salary rates current at reporting date. There were no material adjustments required.

Provisions and contingent liabilities
The consolidated entity has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002. There were no material adjustments required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2003

Note 1: Statement of significant accounting policies (continued)

Foreign currency translation
The consolidated entity has applied the revised AASB 1012 "Foreign Currency Translation" for the first time from 1 July 2002. There were no material adjustments required.

Note 2: Revenue from ordinary activities

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Sale of goods revenue from operating activities	5,302	7,365	-	-
Rendering of services revenue from operating activities	14,772	7,368	-	-
	20,074	14,733	-	-
Other revenue				
Interest:				
Other parties	16	21	3	9
Other revenue	61	23	-	-
Gain on settlement of liability	866	-	-	-
Proceeds from sale of non-current assets	-	14	-	14
Total other revenue	943	58	3	23
Total revenue from ordinary activities	21,017	14,791	3	23

Note 3: Loss from ordinary activities before income tax expense

	Note	Consolidated		The Company	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
Loss from ordinary activites before income tax expense has been arrived at after charging/(crediting) the following items:					
Depreciation:					
Plant and equipment	13	420	388	34	22
Amortisation:					
Goodwill	14	1,071	1,359	-	-
Intellectual property	14	390	1,308	-	455
Leased plant and equipment	13	73	68	7	20
Leasehold improvements	13	14	12	-	-
Total depreciation and amortisation		1,968	3,135	41	497
Net (profit)/loss on disposal of non-current assets and investments		42	(1)	20	-
Research and development costs		408	388		
Provision for diminution of carrying value of investments		-	-	-	11,264
Movement in provision for doubtful debt		(198)	436	-	-
Employee entitlement provisions		151	132	40	40
Borrowing cost – ANZ loan		59	138	59	138
Borrowing cost – Preference shares		30	30	-	-
Borrowing cost – Convertible Notes		5	-	5	-
Borrowing cost – other debt		468	71	105	10
		562	239	169	148
Operating lease rental expense: minimum lease payments		1,001	549	111	23
Write down in value of inventory and licence fees		654	77	-	-
Individually significant items:					
Write down of goodwill		1,645	4,230	-	-
Write down of intellectual property		-	4,092	-	-
Provision against recovery of loans of controlled entities		-	-	5,268	(1,019)

Note 4: Taxation

	Consolidated		The Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
a. Prima facie income tax (benefit) on operating loss calculated on tax at 30% (2002: 30%)	(2,462)	(5,292)	(2,371)	(4,406)
Decrease in income tax benefit due to non deductible items				
Amortisation of intangibles	414	800	-	137
Write down of goodwill	494	1,269	-	-
Write down of intellectual property	-	1,227	-	-
Provision for write off of investment	-	-	-	3,379
Provision on intercompany balances	-	-	1,580	-
Entertainment and travel	-	7	-	10
Current year timing differences not recognised as a future income tax benefit	(10)	33	19	(318)
Current year tax lossesnot recognised as a future income tax benefit	1,564	1,956	772	1,198
Income tax benefit attributable to loss from ordinary activities	-	-	-	-

b. Future income tax benefit not taken to account

Timing differences	624	634	925	906
Tax losses carried forward	7,394	5,830	3,497	2,725
	8,018	6,464	4,422	3,631

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

The potential future tax benefit will only be obtained if:

(i) The relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) The relevant company and/ or the consolidated entity continue to comply with the conditions for deductibility imposed by law; and

(iii) No change in tax legislation adversely affects the relevant company and/ or the consolidated entity in realising the benefit.

Note 5: Auditors' Remuneration

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
Audit Services:				
Auditors of the Company - KPMG	366,080	84,000	219,648	30,000
Other Services:				
Auditors of the Company - KPMG	-	20,000	-	20,000

Note 6:Cash

	Consolidated		The Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Cash at bank	24	1,777	9	12

Note 7: Notes to the Statements of Cash Flows

a. Reconciliation of cash

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

	Consolidated		The Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Cash assets	24	1,777	9	12

Note 7: Notes to the Statements of Cash Flows (continued)

b. Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities:

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Loss from ordinary activities after income tax	(8,206)	(17,640)	(7,902)	(14,687)
Add/(less) non-cash items:				
Amortisation of goodwill	1,071	1,359	-	-
Amortisation of intellectual property	390	1,308	-	455
Write down of goodwill	1,645	4,230	-	-
Write down of intellectual property	-	4,092	-	-
Depreciation & amortisation of property plant and equipment	507	468	41	43
Net increase/(decrease) in provisions	132	248	5,330	(1,061)
Share issues in settlement of operating costs/accounts payable	125	239	125	539
Interest on preference shares	15	-	-	-
Interest expenses on finance leases	7	-	-	-
Provision for diminution in carrying value of investments	-	-	-	11,264
Write off inventory and licence fees	-	77	-	-
(Profit)/Loss on sale of property, plant & equipment	42	(1)	20	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:				
(Increase)/decrease in other assets	-	163	2,488	(2,017)
(Increase)/decrease in trade and term debtors	620	(343)	-	-
(Increase)/decrease in inventories	309	(175)	-	-
Increase/(decrease) in trade creditors and accruals	2,285	2,496	(591)	464
Increase in unearned revenue	(799)	477	-	-
Cash Flows from operations	(1,857)	(3,002)	(489)	(5,000)

c. Non-cash financing and investing activities

On 9 August 2002, the Company issued 2,586,207 fully paid ordinary shares at $0.058 per share, ($150,000) to TDH No. 2 Investments Pty Ltd for the payment of interest for the six month period to 10 July 2002. Refer to Note 30 for further discussion.

The acquisition of the AMFAC business was funded by a loan from the vendor. Refer to Notes 12(c) and 16.

Note 8: Receivables

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
CURRENT					
Trade debtors		2,003	2,336	-	-
Provision for doubtful debts		(567)	(765)	-	-
		1,436	1,571	-	-
Other debtors		327	37	-	8
		1,763	1,608	-	8
NON-CURRENT					
Amounts receivable from:					
Wholly owned subsidiaries		-	-	8,268	10,827
Provision for non-recovery of debt owing by wholly-owned subsidiaries		-	-	(8,268)	(3,000)
		-	-	-	7,827

Note 9: Inventory

Finished goods at net realisable value		466	776	-	-

Note 10: Other current assets

Other	28	576	161	332	41

Note 11: Investments

Shares in controlled entities Unquoted at cost		-	-	11,264	11,264
Provision for diminution of carrying value of investments		-	-	(11,264)	(11,264)
		-	-	-	-

Note 12: Controlled entities

a. **Particulars in relation to controlled entities**

Controlled Entities	Country of Incorporation	Percentage Owned 2003	Percentage Owned 2002
Dynsol Pty Limited	Aust	100%	100%
Pharmasol Pty Limited	Aust	100%	100%
Ecosem S A	France	100%	100%
Dynsol Limited	U.K	100%	100%
Surefire Systems Pty Ltd	Aust	100%	100%
Cosmos E-C Commerce Limited	Aust	100%	100%

b. **Discontinued operations**

On February 2001, the Board announced to the ASX its decision to close down the Homeopathic operations comprising Dynsol Pty Limited (Dynsol), in Sydney, and Ecosem S.A (Ecosem) in France. Dynsol was originally established to manufacture and distribute homeopathic products in Australia. Ecosem conducted medical research in the theories of high dilution at its laboratory in Lyon. Ecosem has subsequently been liquidated. Dynsols' operations are reported in the Health Products segment of the segment report. Dynsol (effectively) ceased operations on 15 January 2001 and Ecosem's research ceased on 1 January 2001. However, on acquisition of AMFAC from Faulding Healthcare Pty Ltd (part of the Mayne Group), the business acquired was placed into the Dynsol Pty Limited and Dynsol re-commenced trading as AMFAC.

c. **Acquisition of controlled entities**

On 10 January 2003, Dynsol Pty Limited acquired 100% of AMFAC. The operating results have been included in the consolidated operating profit.

Details of the acquisition is as follows:

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Consideration	2,209	-	-	-
Fair value of net assets acquired:		-	-	-
Receivables	957	-	-	-
Property plant and equipment	180	-	-	-
Creditors and accruals	(25)	-	-	-
Deferred revenue	(814)	-	-	-
	298	-	-	-
Goodwill on acquisition	**1,911**	-	-	-

This acquisition was funded by a loan from Faulding Healthcare Pty Limited to Dynsol Pty Limited. Refer to Note 16.

Note 13: Property, plant & equipment

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Leasehold improvements at cost	164	149	-	-
Accumulated amortisation	(30)	(16)	-	-
	134	133	-	-
Plant and equipment at cost	2,121	1,694	158	140
Accumulated depreciation	(1,508)	(955)	(126)	(92)
	613	739	32	48
Leased plant and equipment	967	1,155	30	54
Accumulated amortisation	(540)	(650)	(7)	(20)
	427	505	23	34
Total property plant & equipment	1,174	1,377	55	82
Reconciliations				
Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:				
Leasehold improvements				
Carrying amount at beginning of year	133	136	-	-
Additions	15	9	-	-
Disposals	-	-	-	-
Amortisation	(14)	(12)	-	-
Carrying amount at end of year	134	133	-	-
Plant and equipment				
Carrying amount at beginning of year	739	939	48	57
Additions	315	201	18	37
Disposals	(21)	(13)	-	(24)
Depreciation	(420)	(388)	(34)	(22)
Carrying amount at end of year	613	739	32	48
Leased plant and equipment				
Carrying amount at beginning of year	505	521	34	18
Additions	16	55	16	54
Disposals	(21)	-	(20)	(18)
Amortisation	(73)	(71)	(7)	(20)
Carrying amount at end of year	427	505	23	34

Note 14: Intangible assets

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Goodwill at recoverable amount	9,201	8,935	-	569
Accumulated amortisation	(3,935)	(2,864)	-	(569)
	5,266	6,071	-	-
Intellectual property at recoverable amount	3,676	7,768	-	-
Write down of intellectual property carrying value	-	(4,092)	-	-
Accumulated amortisation	(2,137)	(1,747)	-	-
	1,539	1,929	-	-
	6,805	8,000	-	-
Reconciliation of movement in intellectual property				
Opening balance	1,929	7,530	-	-
Intellectual property acquired or generated in period	-	-	-	-
Amortisation and write down in the period	(390)	(5,601)	-	-
Closing balance	1,539	1,929	-	-
Reconciliation of movement in goodwill				
Opening balance	6,071	11,660	-	-
Goodwill acquired in period	1,911	-	-	-
Amortisation and write-down in the period	(2,716)	(5,589)	-	-
Closing balance	5,266	6,071	-	-

Note 14: Intangible assets (continued)

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

Intellectual property

Surefire Systems Pty. Ltd (Surefire) owns PoS software technology applicable to the grocery, liquor, newsagency and general retail markets in addition to an enhanced pharmacy PoS product. The Surefire product suite enables retailers to process transactions, manage inventory, produce daily performance reporting and benchmarking. The directors consider that this functionality will constitute an integral part of the retail environment, assisting retail operations to reduce costs and increase sales and margins. Surefire has developed an enhanced liquor store application, which has been purchased by one of Australia's largest liquor store chains. This was rolled out in September 2001 and will be serviced by Surefire for a further three years. Surefire has a supply agreement with ACP Publishing Pty Limited for the development and supply of the 'Newsagency PoS Product', a state of the art PoS application for the Australian newsagency market. The Company will service and maintain these systems on behalf of the retailers for a minimum period of three years. The expected economic life of the Surefire products is between 5 and 10 years. The carrying amount of Surefire intellectual property at 30 June 2003 was $1.035 million (2002: $1.173 million)

Cosmos E-C Commerce Limited (Cosmos EC). The Cosmos EC gateway provides low-cost, on-line processing of credit and debit card transactions via proprietary telephone and internet exchange systems, employing state-of-the-art security (encryption), telecommunications and information technology systems. Processing relationships with six banks enable payments to be made via customer initiated or periodical direct debit. This technology developed by Cosmos EC has emerged from the developmental phase and has exclusive user agreements with a number of major real estate franchisors. In addition to the Real Estate product the Company provides e-commerce services to more than 200 business clients. This business is expanding rapidly. The carrying amount of Cosmos E-C Commerce Pty Limited intellectual property at 30 June 2003 was $0.504 million (2002: $0.756 million)

Goodwill

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

Based on an assessment of the recoverable amount of goodwill in Pharmasol during the period the consolidated entity wrote goodwill down by $1.645 million during the year ended 30 June 2003.

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

Note 15: Payables

	Note	Consolidated		The Company	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
CURRENT					
Trade creditors		9,058	6,897	944	1,113
Sundry creditors and accruals		1,646	1,547	277	769
Other		223	173	70	-
Deferred software maintenance revenue		870	855	-	-
		11,797	9,472	1,291	1,882

Note 16: Interest Bearing Liabilities

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	The Company 2003 $'000	The Company 2002 $'000
CURRENT					
Lease liability		67	177	-	18
Loan facility - unsecured	28	602	1,600	602	1,600
Other loans – unsecured		1,307	308	1,307	308
Convertible note	28	605	-	605	-
Loan facility secured		1,173	-	-	-
Other debt	30	270	270	-	6
		4,024	2,355	2,514	1,932
NON-CURRENT					
Lease liability		11	61	-	-
Loan facility secured		1,072	-	-	-
Other debt	30	-	142	-	-
		1,083	203	-	-

On May 2003, the Company issued 605,000 Unsecured Convertible Notes at $1 each for working capital purposes. The Convertible Note document stated that Notes would not be issued to an applicant unless the consideration payable by that applicant was at least $500,000. These Convertible Notes were not issued in accordance with the terms and conditions of the Convertible Note document and the Company is in process to amending this Convertible Note document to remove this clause from the agreement Each $1 Note converts into 12.5 shares for each note at $0.08 per share, and attracts interest at 10% p.a. Conversion at the option of the Note holder into ordinary fully paid shares occurs in the period between 30 April 2004 and 30 April 2006.

The purchase of AMFAC was funded by a loan from Faulding Healthcare Pty Ltd.

The principle of $2.45 million is repayable in the following instalments

- 50% of net assets acquired up to a maximum of $100,000 30 days from the date of acquisition;
- Balance of net assets acquired up to a maximum of $100,000 60 days from the date of acquisition;
- Balance of net assets acquired up to a maximum of $100,000 90 days from the date of acquisition;
- $800,000 one year from the date of acquisition;
- $800,000 two years from the date of acquisition and
- Balance of the loan three years from the date of acquisition

Note 16: Interest Bearing Liabilities (continued)

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

Note 17: Provisions

CURRENT	Note	Consolidated		The Company	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
Employee entitlements	23	594	463	81	19
NON-CURRENT					
Employee entitlements	23	49	29	-	-

Note 18: Contributed Equity

Issued and Paid-up Capital				
241,547,714 fully paid ordinary shares (2002: 237,399,007)	61,315	61,040	61,315	61,040
Movement in Ordinary share capital				
At the beginning of the financial year	61,040	55,164	61,040	55,164
Shares issued during the year	275	6,330	275	6,330
Transaction costs arising from share issues	-	(454)	-	(454)
At the end of the financial year	61,315	61,040	61,315	61,040

(i) On 1 August 2002, the Company issued 1,562,500 fully paid ordinary shares at $0.08 per share ($125,000) to Hednesford Pty Ltd.

(ii) On 9 August 2002, the Company issued 2,586,207 fully paid ordinary shares at $0.058 per share ($150,000) to TDH No.2 Investments Pty Ltd.

(iii) On 26 May 2003, the Company released from escrow 1,666,667 fully paid ordinary shares, these shares were issued on 25 May 2001 under a two year escrow period to acquire a 30% interest in the business of Cosmos E-C Commerce Pty Limited.

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

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

Note 19: Accumulated losses

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Accumulated loss at the beginning of the year	(62,068)	(44,428)	(56,903)	(42,216)
Net loss attributable to members of the parent entity	(8,206)	(17,640)	(7,902)	(14,687)
Accumulated losses at the end of the year	**(70,274)**	**(62,068)**	**(64,805)**	**(56,903)**

Note 20: Additional Financial Instruments Disclosure

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

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

			Fixed interest maturing in				
	Weighted average interest rate	Floating interest rate	1 year or less	1-5 years	More than 5 years	Non-interest bearing	Total
2003	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Cash	1.15	24	-	-	-	-	24
Receivables	Nil	-	-	-	-	1,763	1,763
		24	**-**	**-**	**-**	**1,763**	**1,787**
Financial Liabilities							
Borrowings	6.35	-	602	-	-	-	602
Convertible note	10.00		605				605
Payables	Nil	-	-	-	-	11,797	11,797
Employee entitlements	5.25	49	-	-	-	594	643
Lease liability	9.01	-	67	11	-	-	78
Other debt	12.50	-	1,577	-	-	2,245	3,822
		49	**2,851**	**11**	**-**	**14,636**	**17,547**

Note 20: Additional Financial Instruments Disclosure (continued)

			Fixed interest maturing in				
	Weighted average interest rate	Floating interest rate	1 year or less	1-5 years	More than 5 years	Non-interest bearing	Weighted average interest rate
2002	%	$'000	$'000	$'000	$'000	$'000	%
Financial assets							
Cash	3.70	1,777	-	-	-	-	1,777
Receivables	Nil	-	-	-	-	1,608	1,608
		1,777				**1,608**	**3,385**
Financial liabilities							
Borrowings	5.77%	-	1,600	-	-	-	1,600
Creditors	Nil	-	-	-	-	9,472	9,472
Employee entitlements	5.25	29	-	-	-	463	492
Lease liability	9.28	-	177	61	-	-	238
Other debt	11.00	-	585	135	-	-	720
		29	**2,362**	**196**	**-**	**9,935**	**12,522**

Net fair values of financial assets and liabilities

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

Credit risk

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

Note 21: Commitments

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
a. Finance lease commitments				
Payable				
not later than 1 year	70	180	-	-
later than 1 year but not later than 5 years	11	62	-	-
later than 5 years	-	-	-	-
Minimum lease payments	81	242	-	-
Less future finance charges	(3)	(4)	-	-
Total lease liability	78	238	-	-

Note 21: Commitments (continued)

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
b. Non-cancellable operating lease expense commitments				
Payable				
not later than 1 year	726	531	195	-
later than 1 year but not later than 5 years	1,067	1,319	309	-
later than 5 years	-	-	-	-
Minimum lease payments	1,793	1,850	504	-

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

Note 22: Segment information

Major products / services for each industry segment

The consolidated entity conducts:

- a retail technology business providing PoS software, hardware and support services to the retail industry through its controlled entities, PharmaSol Pty.Ltd. and Surefire Systems Pty Ltd.
- a transactions processing business providing electronic funds transfer and processing services principally to rental tenants through the Real Estate industry through its controlled entity Cosmos E-C Commerce Limited.
- a health products business, operated through its controlled entity Dynsol Pty Ltd which was wound down in the previous financial year.

Statement of operations by segments

	Retail Technology		Transactions Processing		Health Products		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Sales to customers outside the consolidated entity	15,111	12,876	4,963	1,880	-	-	-	-	20,074	14,756
Other Revenue	44	9	30	2	-	-	-	10	74	21
Unallocated revenue	-	-	-	-	-	-	-	-	869	14
Total Revenue	**15,155**	**12,885**	**4,993**	**1882**	**-**	**-**	**-**	**10**	**21,017**	**14,791**
Segment Result	(5,468)	(10,172)	(332)	(3,436)	-	(2)	-	-	(5,800)	(13,610)
Unallocated expenses	-	-	-	-	-	-	-	-	(2,406)	(4,030)
Consolidated operating profit / (loss) before tax	**(5,468)**	**(10,172)**	**(332)**	**(3,436)**	**-**	**(2)**	**-**	**-**	**(8,206)**	**(17,640)**
Segment assets	8,854	12,592	1,558	433	-	-	-	-	10,412	13,025
Unallocated assets	-	-	-	-	-	-	-	-	396	674
Total assets	**8,854**	**12,592**	**1,558**	**433**	**-**	**-**	**-**	**-**	**10,808**	**13,699**
Segment liabilities	(11,198)	(6,436)	(2,248)	(3,027)	-	(152)	-	-	(13,446)	(9,615)
Unallocated liabilities	-	-	-	-	-	-	-	-	(4,101)	(2,907)
Total liabilities	**(11,198)**	**(6,436)**	**(2,248)**	**(3,027)**	**-**	**(152)**	**-**	**-**	**(17,547)**	**(12,522)**
Net (liabilities)/assets	**(2,344)**	**6,156**	**(690)**	**(2,594)**	**-**	**(152)**	**-**	**-**	**(6,739)**	**1,177**
Depreciation and amortisation	(1,457)	(1,689)	(511)	(947)	-	-	-	(495)	(1,968)	(3,135)
Other non cash expenses	(270)	(270)	-	-	-	-	-	-	(270)	(270)
Acquisitions of non-current assets	238	142	108	86	-	-	-	37	346	265
Inventory write down	654	77	-	-	-	-	-	-	654	77
Individually significant items:										
Write-down of goodwill	(1,645)	-	-	(4,230)	-	-	-	-	(1,645)	(4,230)
Write-down of intellectual property	-	(4,092)	-	-	-	-	-	-	-	(4,092)

Note 22: Statement of operations by segments (continued)

Geographical segments

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

	New South Wales		Victoria		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Sales to customers outside the consolidated entity	6,734	1,880	13,340	12,876	-	-	20,074	14.756
Other Revenue	38	26	36	9	-	-	74	35
Unallocated	-	-	-	-	-	-	869	-
Total Revenue	**6,772**	**1,906**	**13,376**	**12,885**	**-**	**-**	**21,017**	**14,791**
Segment Result	(860)	(7,468)	(4,940)	(10,172)	-	-	(5,800)	(17,640)
Unallocated	-	-	-	-	-	-	(2,406)	-
Consolidated operating profit / (loss) before tax	**(860)**	**(7,468)**	**(4,940)**	**(10,172)**	**-**	**-**	**(8,206)**	**(17,640)**
Segment assets	3,878	1,887	6,534	11,812	-	-	10,412	13,699
Unallocated	-	-	-	-	-	-	396	-
Total assets	**3,878**	**1,887**	**6,534**	**11,812**	**-**	**-**	**10,808**	**13,699**
Segment liabilities	(5,378)	(6,086)	(8,068)	(6,436)	-	-	(13,446)	(12,522)
Unallocated	-	-	-	-	-	-	(4,101)	-
Total liabilities	**(5,378)**	**(6,086)**	**(8,068)**	**(6,436)**	**-**	**-**	**(17,547)**	**(12,397)**
Net (liabilities)/assets	**(1,500)**	**(4,199)**	**(1,534)**	**5,376**	**-**	**-**	**(6,739)**	**1,177**
Acquisition of Non Current Assets	(288)	(86)	(58)	(142)	-	(37)	(346)	(265)

Note 23: Employee entitlements

	Consolidated		The Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Aggregate liability for employee entitlements, including on-costs				
Current	594	462	81	19
Non-current	49	29	-	-
	643	491	81	19

Note 23: Employee entitlements (continued)

Employee share option scheme

Employee
On 27th April 2001 the Members at a general meeting resolved to set the exercise price for the Company's Employee Option Plan to $0.30.

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

2003	No of options	Vested	Grant Date	Expiry Date	Exercise Price ($)
Options outstanding	240,000	Yes	01/04/99	01/04/04	0.30
	1,920,000	No	03/08/99	27/05/04	0.50
	5,500,000	No	27/09/00	17/10/03	0.25
	5,500,000	No	27/09/00	17/10/03	0.30
	4,000,000	No	30/04/03	26/04/04	0.40
	2,000,000	Yes	08/01/03	28/11/05	0.065
	2,000,000	Yes	08/01/03	28/11/05	0.13
	500,000	Yes	08/01/03	28/11/07	0.15

2002	No of options	Vested	Grant Date	Expiry Date	Exercise Price ($)
Options outstanding	2,000,000	Yes	31/01/00	31/01/03	0.23
	240,000	No	01/04/99	01/04/04	0.30
	1,920,000	No	03/08/99	27/05/04	0.50
	5,500,000	No	27/09/00	17/10/03	0.25
	5,500,000	No	27/09/00	17/10/03	0.30
	1,000,000	Yes	23/03/01	22/03/04	0.30
	4,000,000	Yes	23/03/01	22/03/04	0.40
	4,000,000	No	30/04/03	26/04/04	0.40
	1,000,000	No	14/06/00	14/06/03	0.40
	2,000,000	Yes	18/05/00	18/05/03	0.25
	2,000,000	Yes	18/05/00	18/05/05	0.40

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

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

Note 23: Employee entitlements (continued)

Number of employees
The number of employees at year-end; Consolidated (167) (2002: 137), the Company (7) (2002: 7).

Note 24: Directors' and Executives' Remuneration

	Consolidated		The Company	
	2003 $	2002 $	2003 $	2002 $
a. Directors' remuneration				
Income paid or payable to all directors of each entity in the consolidated entity by the entities of which they are directors and related parties	450,519	473,999	450,519	473,999
Number of directors whose income from the company and related bodies corporate falls within the following bands	No.	No.	No.	No.
$0 - $9,999	2	4	2	4
$10,000 - $29,999	-	1	-	1
$140,000 - $149,000	1	-	1	-
$160,000 - $169,999	-	-	-	-
$310,000 - $319,000	1	-	1	
$330,000 - $339,999	-	-	-	-
$440,000 - $449,999	-	1	-	1
b. Executives' Remunerations				
The remuneration received or due and receivable by Executive Officers, from the parent entity and any related parties for management of the affairs of the parent entity and its subsidiaries whose income if $100,000 or more	1,234,519	1,035,221	442,976	753,429
The number of executives of the Company whose income from the Company and related bodies corporate falls within the following bands	No.	No.	No.	No.
$100,000 – $109,999	-	-	-	-
$110,000 – $119,999	-	-	1	-
$120,000 – $129,999	1	-	-	-
$130,000 – $139,999	3	-	-	-
$160,000 – $169,999	-	1	-	1
$180,000 – $189,999	1	1	1	1
$190,000 – $199,999	-	-	-	-
$200,000 – $209,999	-	1	-	1
$220,000 – $229,999	1	-	-	-
$240,000 – $249,999	-	1	-	1
$280,000 – $289,999	1	1	-	-

Executive officers are those officers involved in strategic direction, general management, or control of business at a company level.

Note 25: Events subsequent to reporting date

(i) The Company have received commitments from major shareholders to provide $6.2 million in funding to the Company. Funds will be used for the following:
- provide medium term (3 year) funding sufficient to enable the Company to discharge its outstanding liabilities to the ATO;
- to consolidate the main funding facilities to the Company;
- to provide sufficient working capital to complete the Company's realisation programs that will significantly reduce the Company's cash requirement.

(ii) On 28 August 2003, the Company issued 6,000,000 fully paid ordinary shares issued at $0.025 being consideration for interest payment to TDH No.2 Investments Pty Ltd for the period to 10 July 2003 under the terms of the preference share issue.

(iii) 16,639,555 ordinary shares (including 2,508,361 ordinary shares to TDH No.2 Investments Pty Ltd for interest payment for the period to 10 July 2002 and 8,450,000 fully paid ordinary shares to Coudert Brothers) and 4,500,000 options was approved by shareholders at the annual general meeting of the Company held on 28 November 2002. These shares were subsequently issued on 22 July 2003.

Note 26: Related Parties

Directors
The names of each person holding the position of director of Cosmos Limited during the year are:

Dr. Henry Preston	(appointed 20 February 2002)
Dr. Robert Tynan	(appointed 28 May 2002)
Mr. Nigel Purves	(appointed 26 November 2002)
Mr. John Burrows	(resigned 26 November 2002)

Details of directors' remuneration are set out in Note 24.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interest existing at year-end.

Directors' holdings of shares and share options

	Consolidated	
	30 June 2003	30 June 2002
	No.	No.
Ordinary shares	9,383,587	5,547,000
Options over ordinary shares	4,000,000	NIL

Other than outlined above, the terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non- director related entities on an arm's length basis.

Note 26: Related Parties (continued)

Transactions with directors
Loans totaling $300,000 (2001: $300,000) made by directors to the Company during the 2002 year remained outstanding. The directors were Mr. John B Burrows and Dr. Henry Preston. The balances owing to them at 30 June 2003 are $200,000 and $100,000 respectively. Interest amounting to $45,750 was expensed for the period and is payable on settlement at the rate of 15.25% p.a.

An amount of $32,262 (2002: Nil) is receivable from Mr. N Purves as at 30 June 2003.

Dr Henry Preston is also a director of TDH No.2 Investments Pty Ltd, a company who holds preference shares in the capital of Pharmasol Pty Ltd. Refer to Note 30.

Wholly-owned group
Details of interest in wholly owned controlled entities are set out in Note 12. Details of dealings with these entities are set out below:

Apart from the details disclosed in this note, loans between related parties are interest free.

Balances with entities within the consolidated entity
The aggregate amounts receivable by the Company from controlled entities at balance date was $Nil (2002: $7,827,000).

Note 27: Dividends

No dividends have been paid or declared for payment. This is consistent with the previous financial year.

Note 28: Financing arrangements

The existing cash advance facility with the ANZ Banking Group for $1,600,000, has been reduced to $601,869 through loan repayments and is being rolled over on a monthly basis. Interest is payable at 6.35% monthly in arrears. This loan has been guaranteed by Adler Corporation Pty Ltd and Publishing and Broadcasting Limited. On 10 May 2001, in return for Publishing and Broadcasting Limited providing this guarantee, they took out a first charge over all of the assets and undertakings except Dynsol Pty Limited, including unpaid capital, of the group. The facility was fully utilised as at 30 June 2002. On 02 May 2003, in return for Adler Corporation Pty Ltd providing this guarantee, a loan of $215,000 was provided by Cosmos Limited to Happle Pty Limited. This loan is not interest bearing.

On 5 May 2003, the Company issued 605,000 Unsecured Convertible Notes at $1 each for working capital purposes. Each $1 note converts into 12.5 shares for each note at $0.08 per share, and attracts interest at 10% p.a. Conversion into ordinary fully paid shares occurs in 12 monthly intervals beginning in 30 April 2004 until 30 April 2006.

Dynsol Pty Limited obtained a loan from Faulding Pty Limited for the purchase price of the business of AMFAC for $2.45 million. On 10 January 2003 Faulding Healthcare Pty Limited took out a first charge over all of the assets and under takings of Dynsol Pty Limited.

On 27 February 2003, the Company entered into a loan with Happle Pty Limited for $1 million with an interest rate of 10% per annum.

Loans totalling $300,000 were made by directors to the Company. Refer to Note 26 for more information.

Note 29: Earnings per share

Earnings reconciliation	2003 $'000	2002 $'000
Net loss	(8,206)	(17,640)
Basic earnings	(8,206)	(17,640)
Diluted earnings	(8,206)	(17,640)
	Number '000	Number '000
Weighted average number of ordinary shares used as the denominator		
Number for basic earnings per share	241,127	191,423
Effect of share options on issue	-	-
Number for diluted earnings per share	241,127	191,423
Basic loss per share	$(0.034)	$(0.092)
Diluted loss per share	$(0.034)	$(0.092)

The 21,660,000 share options on issue have not been included in the diluted EPS calculation as they are unlikely to be exercised due to the current share price being well below their exercise price.

Note 30: Minority Interest

Minority interest represents preference shares issued in PharmaSol Pty Ltd to fund the acquisition of the NSW and SA agencies of Pharmasol and to provide working capital.

On 10 July 2000, the Company, PharmaSol Pty Ltd (a controlled entity) and TDH No.2 Investments Pty Ltd, entered into an agreement for TDH No.2 Investments Pty Ltd to subscribe for 30,000 Preference Shares in the capital of PharmaSol Pty Ltd at $100 each, for a total subscription amount of $3,000,000. Under the terms of this agreement, these preferential shares would convert to four Cosmos Limited shares for every $1 of preference shares held. The preference shares carry no voting rights and do not entitle the holders to any further participation in the profits or assets of the consolidated entity.

These preference shares were to automatically convert on 10 July 2003. Interest of 10% per annum payable 6 monthly in arrears was to be paid in Cosmos Limited shares in lieu of cash. It was further agreed that if the price of the shares on the ASX at the due date of interest were $0.25 or greater, then the interest would be paid at $0.25. If less than $0.25, then the interest would be a weighted average of the previous five days share price on the ASX, less 5% discount.

Shareholders approval was sought, and approved at a General Meeting held 27 September 2000. Pursuant to this agreement for the payment of interest, the Company issued 2,586,207 fully paid ordinary shares on 9 August 2002 at $0.058 ($150,000).

The present value of the future interest payments on these preference shares has been treated as other debt in the statement of financial position. This debt will revert to equity on payment of the interest. Refer to Note 1(r) for accounting policy.

The Company is in discussions with the preference shareholders about the conversion to equity.

Note 31: Contingent Liabilities

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote is set out below.

A claim has been made against Cosmos E-C Commerce Pty Limited by the official liquidator of its former owner. In the director's opinion, disclosure of any further information would be prejudicial to the interest of the Company.

The directors are of the opinion that a provision will not be required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Cosmos Limited:

   (a) The financial statements and notes, set out on pages 18 to 49 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and cash flows, for the year ended on that date; and

      (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

   (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dr. Henry Preston
Chairman

Dated: 1st October 2003

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COSMOS LIMITED

Scope

We have audited the financial report of Cosmos Limited for the financial year ended 30 June 2003, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 31, and the directors' declaration set out on page 50. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

Audit Opinion

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

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Inherent Uncertainty regarding continuation as a going concern

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

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

KPMG

Roger Amos
Partner
Sydney

1 October 2003

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. Shareholding
   a. Distribution of Shareholders Number

Category (size of Holding)	Ordinary
1 – 1,000	264
1,001 – 5,000	471
5,001 – 10,000	316
10,001 – 100,000	720
100,001 – and over	228
	1,999

The number of shareholdings held in less than marketable parcels is 853.

The names of the substantial shareholders listed in the holding company's register as at 1 October 2003 are:

Shareholder	*Number Ordinary*	*Percentage*
Link Traders (Aust) Pty Limited	26,286,345	9.96%
Adler Corporation Pty Limited	25,198,500	9.54%
PBL Surefire Investment Pty Limited	13,720,830	5.19%

At 1 October 2003 there were 1,999 holders of the fully paid ordinary shares of the Company's register. The voting rights attaching to the ordinary shares are 1 vote for each share held.

20 Largest Shareholders — Ordinary Shares

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Link Traders (Aust) Pty Limited	26,286,345	9.96%
2.	Adler Corporation Pty Limited	25,198,500	9.54%
3.	PBL Surefire Investment Pty Limited	13,720,830	5.19%
4.	H&C Holdings (Aust) Pty Limited	12,000,000	4.54%
5.	TDH No.2 Investments Pty Limited	8,508,361	3.22%
6.	Hednesford Limited	8,450,000	3.20%
7.	Mr. Henry Preston	6,694,529	2.53%
8.	TDH No.2 Pty Limited	6,549,671	2.48%
9.	Kierford Arch Pty Limited	6,420,950	2.43%
10.	Indubilla Pty Ltd <MSH Super Fund A/C>	4,700,000	1.78%
11.	Hednesford Limited	3,770,947	1.43%
12.	Finsbury Limited	3,500,000	1.32%
13.	ANZ Nominees Limited	2,860,994	1.08%
14.	John Burrows	2,689,058	1.02%
15.	National Nominees Limited	2,638,903	1.00%
16.	Link Traders (Australia) Pty Limited	2,512,443	0.95%
17.	Bay Equities Limited	2,500,000	0.95%
18.	Anabelle Bits Superannuation Fund Pty Limited	2,245,000	0.85%
19.	Westpac Custodian Nominees Limited	2,080,890	0.79%
20.	Road Runner Investments Pty Limited	2,000,000	0.76%
		145,330,421	52.78%

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

On-market buy back

There is no current on-market buy-back.

Other information

Cosmos Limited incorporated and domiciled in Australia, is a publicly listed company listed by shares.

Board of Directors
Dr. Henry Preston
MB BS, FRCPA, MIAC, AIMM
Dr. Robert F Tynan
MB BS, MBA
Mr. Nigel Purves
B.Fin. Admin, Dip. Fin. Mgt., MBA, ACIS, ACA, FCPA

Company Secretary
Mr. Nigel Purves
B.Fin. Admin, Dip. Fin. Mgt., MBA, ACIS, ACA, FCPA

Auditors
KPMG
Chartered Accountants

Solicitors
Mr. John Garrett
Corporate Counsel
Cosmos Limited

Bankers
National Australia Bank Limited

Registered Office
Suite 410, 15 Lime Street, Sydney, NSW 2000

Internet Web Address
www.cosmos.com.au

Share Registry
Computer share Registry Services
Level 3, 60 Carrington Street
Sydney, NSW 200
Telephone: +61 02 8234 5222
Facsimile: + 61 02 8234 5050

Shareholders with questions regarding their shareholding should contact the Share Registry.

Change of Address
Shareholders who have changed address should advise the share registry in writing.

Stock Exchange Listing and Share Price
The Company's issued ordinary shares are listed on the Australian Stock Exchange

The company's share price is quoted daily in national newspapers as well as on a number of information services and web sites. The price can also be obtained by phoning "MarketCall" on 1902 941 520 quoting code 6102. This call attracts a charge from your telephone service provider