Risk Management

The Company's system of risk oversight and management and internal control should be designed to:

- identify, assess, monitor and manage risk; and
- inform investors of material changes to the Company's risk profile.

The Board is responsible for identifying the risks that face the Company as an organization. These will include both internal and external risks. The Board have reviewed all internal and external and financial and non-financial risks that face the Company. An overview of these risks can be found in the risk matrix – the format of which is set out below. The risk matrix is the responsibility of and is kept by the company secretary.

Risk Nature Of Risk Division Within Company Responsibility Degree Of Risk Action

The identification and proper management of risk within the Company is an important priority for the Board and management. The Board monitors risk within the Company to ensure high standards of operational quality and compliance with the Company's approved strategies, policies and procedures. It ensures the Board is aware of any material risk issues and assesses the viability of the Company's operations.

Risk must be identified to allow the Company to plan, assess and execute its strategies. Once risk has been identified and assessed, the management and the Board will have the capacity to determine the level of risk that is acceptable to the Company. This assessment will also allow for the acceptance of risk designed to achieve the Company's strategic plans.

Risk monitoring and assessment activities are designed to reduce, or otherwise manage, risk to levels that are acceptable to the management and the Board. Without these controls, decisions regarding the business and its strategies will not be made on a fully informed basis and the Company will not realize the maximum potential from its business.

A fundamental component of risk management is the development of ongoing monitoring which effectively re-assess risk and the effectiveness of controls to manage risk. These monitoring activities must be conducted on a regular basis to ensure that the controls in place are functioning properly.

The Board and management must be kept fully informed in relation to all risk to ensure that the correct decisions in the best interests of the Company are made, and that its strategic plans are realized. The role of the Board is to:

- research and review reference materials and background information relating to risk management in the Company's industry as a basis to assess whether or not the process used by the Company is appropriate and represents the best practices for the industry;
- research and review current developments, trends, industry information related to the business conducted by the Company and other sources of information to determine risk and exposure that may affect the Company;
- review corporate policies, the Board and Audit Committee members' meeting minutes to determine the Company's business strategies, risk management philosophy and methodology, appetite for risk and acceptance of risks;
- review previous risk evaluation reports by management, internal and external auditors;
- conduct interviews with management staff to determine company objectives, and related risks and risk litigation and monitoring activities;
- compile information to evaluate the effectiveness of risk litigation monitoring and communication of risks;
- review the adequacy and timeliness of recording of risk management results;
- review the completeness of management's risk analysis and actions taken to remedy issues raised by the risk management process;
- determine the effectiveness of management self-assessment process;
- review risk related issues that may indicate weakness in risk management practices; and
- formulate a formal Board risk management policy for future use in assessing and monitoring and responding to risk.

The Board is responsible for establishing and implementing a system for identifying, assessing, monitoring and managing material risk throughout the Company. The system will include the Company's internal compliance and control systems.

The integrity of the Company's financial reporting relies upon a sound system of risk management and control. Accordingly, the chief executive officer and chief financial officer, to ensure management accountability, are, as part of the Company's annual reporting procedures, required to provide a statement stating that the financial reports of the Company are based upon a sound risk management policy.

The Board has implemented a system that identifies and manages areas of significant business risk. It receives regular reports from the Company's business divisions which outline areas of significant business risk and the management of those risks. The Board has overall responsibility for the Company's internal control environment, and ensures that the Company has an integrated framework of control, based on formal procedures and appropriate delegation of authority and responsibility.

There is a disciplined approach to identification and management of risk. Management has established and implemented a system for identifying, assessing, monitoring and managing material risk through the organization. This system includes the Company's internal compliance and control systems. The Company's internal audit function undertakes an analysis of the effectiveness of the Company's risk management and internal compliance and control system and of the effectiveness of their implementation. This analysis is performed at least annually.

Financial Risk Management Objectives And Policies

The Group's principal financial instruments comprise bank loans, debentures, convertible notes, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and interest rate risk. The board reviews and agrees policies for managing credit risk and interest rate risk which are summarized below.

Credit Risk

The Group trades only with recognized, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, the exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's non-current investments in debentures and debt obligations. The Group does not enter into interest rate swaps, designated to hedge underlying assets or debt obligations, to manage the interest rate risk. At 30 June 2007, all investments in debentures and all borrowings of the Group are at a fixed rate of interest.

Foreign Currency Risk

The Group has transactional currency exposure resulting from significant sales activities into the United States and into Europe, and from its wholly owned subsidiary ImpediMed Inc whose operations are denominated in a currency other than the functional currency of the Group. The Group does not enter into any forward contract or any other instrument to hedge the currency exposure