The prevailing global financial environment has proven to be a test for even the strongest companies, Ellex amongst them. In our case, almost perversely, it is the relative strength of the Australian economy – and, hence, our dollar against its counterpart in the US, the Japanese YEN and the Euro – that has been the primary contributor to the impact on this year's profitability.

There is no sugar-coating it: the resilient Australian dollar has been largely responsible for the company incurring a net loss before tax of $1.1 million for the year ended 30 June 2011, which is a significant reduction compared with the net profit of $3.6 million for the previous 12 months. Group revenues were also down $4.5 million compared with the prior corresponding period. Again, however, approximately $3.5 million of this can be attributed to the buoyant Australian currency.

Another factor in this result was a $303,000 reduction in profit brought about by our decision to close the plant in Sacramento, California and consolidate all manufacturing in Adelaide, Australia. However, we fully expect this plan to effect immediate material cost savings and operational efficiencies in the year ahead.

In sales, revenue fell in all regions with the exception of Japan, where unit volumes remained stable. This was clearly a positive result in view of the disruption caused to the Japanese economy by the tsunami in March 2011.

Asia provided another positive with improved sales traction in our indirect markets, including an increase in the number of units sold into China. This is a promising trend and the company aims to build on this in the current trading year.

In the US, sales volumes fell by 17% during the period, reflecting the continued sluggish condition of its economy. We experienced similar trends with our European indirect distributor markets, where volumes fell by 5%, largely due to increased price competition.

In the Australian market, unit volumes were down from those achieved the previous financial year. (The higher volumes had been inflated by the federal government's 2010 investment allowance concessions.)

Where does that leave us? There is no doubt the global economic slowdown during 2009 and into 2010, followed by the unprecedented rise in the value of the Australian dollar during 2011, has placed significant pressure on our company. Recognising the permanency of these conditions, the company unequivocally responded with a number of pivotal resolutions during the 2011 financial year.

In April 2011, the management team was reorganised. A new chief executive was recruited along with two other senior positions. Concurrent with this, responsibilities for the global sales organisation were reassigned and senior management took direct control of a number of important projects the company needed to address. The first of these was the consolidation of manufacturing into the Adelaide plant.

During 2011, the company also entered into two significant third-party distribution agreements to leverage the strength of our sales distribution network with CenterVue SpA and STAAR. Through its world-leading digital retina camera product, the agreement with CenterVue provides our company with an entry into the Australian optometry market.

Despite the difficult trading environment, we continued to invest in product development in 2011, with a total of $1.4 million spent on research and development. We released an enhanced Eye Cubed™ ultrasound product and received a healthy response from the market. Also, in April 2011, we announced positive clinical data for the Ellex 2RT™ research program, which demonstrates the efficacy of retinal rejuvenation therapy in the treatment of age-related macular degeneration, the leading cause of blindness in the developed world.

Our new management team is now fully focussed on developing strategies to return the business to profitability for the long term. The company's strengths clearly lie in its portfolio of intellectual property, its global distribution network, medical device manufacturing, as well as our service and engineering. Before us lie opportunities to reduce our manufacturing costs materially for the core ophthalmic product business, whilst also reducing the volatility of the revenue streams from our core business. In addition, we also have a platform to develop alternative revenue streams.

With all of these measures in hand and acknowledging the key strengths at our disposal, I am confident that we will emerge from the current difficulties to resume the delivery of growth and value to our shareholders.

Victor Previn
CHAIRMAN