



To Our Shareholders

I am pleased to report that Ellex concluded the 2009 financial year in a stable condition, well positioned to grow in the anticipated market recovery.

Our financial performance this year was influenced significantly by the global financial crisis. In contrast with the last five years, where we enjoyed good economic certainty and a period of stable market growth, this financial year saw a material downturn in corporate and consumer confidence. As with most companies, the result for Ellex was a marked downturn in expected financial performance. In response, Ellex introduced a number of initiatives designed to make our business more flexible and responsive to changing market conditions.

Despite the difficult economic conditions, Ellex experienced continuing demand for its products in the 2009 financial year. In all, revenue increased by 16% aided by favourable exchange rates.

From a regional perspective, the Australian business performed well, achieving a revenue growth rate of 7%. This was aided in part by the Investment Allowance stimulus package offered by the Australian Government. The establishment of a new Ellex subsidiary in Germany further bolstered our sales performance, with this business exceeding the original revenue projections despite the recessionary market. As it moves into its second year of operations, we anticipate that Ellex Germany will perform in accordance with expectations and provide a platform for future growth. Demand elsewhere in Europe and in Japan remained steady. Aided by favourable exchange rates, Japanese revenue grew 40%, while revenue in the United States was below expectations due to the economic environment.

Pre-tax profit prior to one-off items was \$3.1 million, an increase of 30% over the previous financial year. This was a solid result, particularly in the context of global economic conditions, and demonstrates the underlying strength of Ellex. Unfortunately, due to one-off non-cash accounting charges incurred during the period, a Net Loss After Tax of \$22.6 million was incurred. These one-off accounting charges totalled \$26.3 million, and consisted of a write-down in goodwill of \$22.4 million, which was taken following receipt of independent professional advice in respect of the balance sheet carrying value of this intangible asset. The other one-off item related to foreign exchange losses incurred through the impact of a weakening Australian dollar on foreign currency hedging positions held by the Company, which had been set for an anticipated strengthening of the Australia dollar. While these one-off accounting charges and the resulting accounting loss were unfortunate, we believe that they will not recur and Ellex is budgeted to return to profitability in the 2010 financial year.



In December 2008, with worsening global economic conditions, the Board of Directors concluded that it was in the best interests of shareholders to raise capital in order to strengthen the Company's balance sheet. A Rights Issue was successful in raising \$1.6 million in equity capital and helped to better position the Company moving forward.

By taking a more measured approach to business growth, the Company maintained solid underlying profitability. This included a concerted effort to reduce debt, reduce inventory and manage expenses across all business functions, all of which have had a positive influence on the Company's balance sheet.

In swift response to the shift in market dynamics, Ellex implemented a series of internal changes principally designed to reduce our overhead structure and, in doing so, ensure the Company's long-term sustainability. This led to the retrenchment of around 20% of our employees and the restructuring of our U.S. operations to reduce overheads and refocus sales efforts to our Minneapolis-based headquarters. In addition, a number of initiatives were undertaken in order to drive efficiencies within working capital management, leading to considerable improvements in raw material and work-in-progress holdings.

In October 2008, Simon Luscombe was appointed CEO. Mr. Luscombe has an outstanding track-record in sales and marketing within the ophthalmic industry and has demonstrated an excellent combination of sales drive with a strong orientation toward enhancing the bottom line. To support Simon in his role, Melanie Young was appointed CFO. Ms. Young has been with the Company for four years and had served as Group Accountant and Financial Controller.

During the course of the year we strengthened the Board of Directors through the appointment of two new directors, Giuseppe Canala and Malcolm Plunkett. Both have considerable experience in the ophthalmic industry. Mr. Plunkett, who is also a Director of Ellex advanced research subsidiary Ellex R&D Pty. Ltd., heads up the Ellex 2RT™ Research Program.

Successful companies grow through innovation, and Ellex continued to invest in its product development pipeline during the 2009 financial year. The Ellex 2RT™ Research Program continues to make solid progress, with several clinical trials underway in Australia and the United Kingdom. We are hopeful that they will further validate the efficacy of Ellex 2RT™ for a number of clinical indications, including age-related macular degeneration (AMD). In late 2008, six-month pilot study results for Ellex 2RT™ were presented by Professor John Marshall, PhD, FRCPath, FRCOphth (Hons), of St. Thomas' Hospital, London. The early results indicate that Ellex 2RT™ is clinically safe and effective in the treatment of macular edema in diabetic retinopathy patients. The Company continues to view Ellex 2RT™ as a significant opportunity for future growth.

Moving forward, we will work hard to achieve a distinct balance between initiatives that reduce costs and initiatives that position us for growth, with a goal of fostering a more sustainable business model over the long term. We will continue to focus our efforts on delivering ever-increasing value to our shareholders, and are committed to continuing to move forward on the path to profitability.

A handwritten signature in black ink, appearing to read "V. Previn".

Victor Previn
Chairman