

From the Ellex CEO

Dear Shareholder,

The 2008 financial year has been another year of progress and accomplishment for Ellex, but it has also been a challenging one.

We continue to be the fastest-growing brand of lasers and ultrasound used by ophthalmologists to fight blindness. Our revenues grew by 13 percent in what was a very difficult economic and competitive environment, and we have now reached an important milestone of \$50 million in revenue.

A significant focus of our business during the financial year was the transition to a direct sales channel in the United States. This is the single largest market opportunity for our products and as such, it is critical that Ellex develop a strong sales channel to support our future growth plans. Today, we have six direct sales representatives in key U.S. territories, supported by independent representatives. We have also strengthened our management and back-office infrastructure to support this expanding sales force. With five of the six direct sales representatives joining the company between January and June 2008, we did not realise the full benefit of this investment during the financial year. However, we are encouraged by the early results we have achieved and expect to see continued improved performance in the year ahead.

Our direct sales channels in Australia and Japan and our distribution network in Europe continue to perform well. The development of the U.S. direct sales force will mean that we have strong sales channels in all key markets, positioning Ellex well for future expansion. We have also started to focus on the important Asian market outside of Japan.

In November 2007, we released the first results from the Ellex 2RT (Retina Regeneration Therapy) pilot trial being conducted at St. Thomas Hospital in London. The three-month, follow-up data presented at the American Academy of Ophthalmology indicated the treatment was effective in improving visual acuity and treating diabetic maculopathy without damaging the neuro-retina. Given these results, we have commenced a similar trial in Australia and are in the advanced stages of planning for early AMD (age-related macular degeneration) trials, where we believe the treatment may have significant potential.

During the 2008 financial year, we faced uncertainty in financial markets and a deterioration in the economic environment. In our key markets we saw customers deferring purchasing decisions in response to these changing conditions, particularly in the third quarter ending 31 March, 2008. We have also seen a very strong competitive environment that has placed pressure on pricing and, therefore, on margins. We are pleased that despite this, we have managed to achieve a small increase in our average gross margin, from 44 percent to 45 percent. However, overall revenue growth during the year was not as strong as first expected or required to match our rising cost base, and this has led to lower earnings.

As we move into the new financial year we are focused on improving profitability and shareholder return. We expect to drive these improvements by refining our cost structure, growing revenues in the United States as a result of the new sales infrastructure, and achieving more efficient use of working capital, particularly inventory.

I would like to take this opportunity to thank our former CEO, Mr. Peter Falzon, whose leadership was instrumental during a period of significant expansion and growth. I would also like to sincerely thank the Ellex management team and our 220 staff worldwide for their dedication and commitment.



Kevin McGuinness
Chief Executive Officer

