

CHAIRMAN'S ADDRESS



Ellex Medical Lasers Ltd (ASX:ELX)
Adelaide, Australia

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Ladies and gentlemen, shareholders, thank you for attending the 2006 AGM.

We are pleased to report that during fiscal 2006, Ellex made significant progress towards our goal of becoming the leading brand of lasers used by ophthalmologists to fight blindness. This is the core goal of our 5 year plan.

We introduced the Ellex brand to our ophthalmic customers globally and further expanded our product line, both of which received considerable attention in the market place. Our Ellex-branded sales increased by 61 percent from last year, with growth in all key markets.

Our OEM business reduced to only 20 percent of our revenue, compared to 36 percent last year.

We finished the year with total sales growth of 28% and increased net profit by 221% over the previous year (excluding one-off items), indicating that our transition is progressing according to plan. It is clear that our strategy to transition from an OEM supplier to directly marketing our products to ophthalmologists benefits our customers, shareholders and employees. Our company is growing, shareholder value has increased, and our customers have made Ellex the fastest-growing laser brand in ophthalmology.

A number of other key highlights include:

- We launched the Integre Duo, our third major new product in as many years, to the retinal market.
- We established an Advanced Research Group run by Malcolm Plunkett, the former head of R&D. Ellex funds advanced research projects with one percent of revenue to work with leading research institutions in Australia and around the world to develop new therapies for Ellex to commercialize.
- We recruited Dr Herbert Pummer, a seasoned laser industry veteran from California, to establish a manufacturing engineering team in order to gain efficiencies and expand manufacturing capacity to support our growth.
- We established a Global Customer Service department to better support our growing list of customers globally.



- Kevin McGuinness was promoted to Chief Operating Officer in the second half of the year, a move that consolidated manufacturing, engineering, service and finance under one management team reporting to Kevin in Adelaide. This has allowed Peter to focus more of his time growing the sales and marketing side of the company.

On sales and marketing, we managed our Japanese operation to profitability, against the predictions of numerous sceptics.

Japan continues to be a success story for our company, with Ellex Japan crossing the line to profitability mid-year. Japan accounted for 19 percent of Ellex revenue in fiscal 2006, compared to 9 percent last year. We now have 17 full time staff in Japan and expect further growth.

Sales in Asia outside of Japan also grew robustly, with key regulatory product approvals achieved in China and Korea.

We experienced exciting sales growth in our European business which has enabled us to expand our presence there. We now have three full time Ellex employees at our European base in Clermont-Ferrand, France.

In North America, the largest market for our products, Ellex hired a full-time sales manager based in Atlanta to supplement our 5 full time support staff in Minneapolis and 15 independent sales representatives strategically placed in the US. We plan to add more direct sales staff this year.

Now, our focus is leveraging the investments made in new products and distribution over the past several years to become a leader in the A\$260 million ophthalmic laser market. We think we are well positioned to grow our share of this market.

With one quarter behind us already in fiscal year 2007, we remain confident that we will meet our guidance of 15% revenue growth with continued improvement in profitability for the 2007 financial year. With OEM sales accounting for less than 10% of our revenue this year, we are more exposed to the seasonality of our end user's buying patterns, which means our year starts slower since July and August are quiet months in the Northern Hemisphere. However, activity since the middle of September suggests robust interest in our products and growth that will meet our guidance targets.

Finally, I would like to mention that Ellex now has 163 employees and their dedication, as well as the leadership of our senior management, are critical factors in our success. I would like to thank them all.



ABOUT ELLEX

Ellex Medical Lasers Ltd. (ASX:ELX) designs, manufactures and markets a complete line of lasers used by ophthalmologists to preserve vision and treat eye diseases. With more than 10,000 systems delivered to the market, Ellex has evolved since 1985 from a manufacturing company of primarily OEM products, to direct marketing of its own branded products through subsidiaries in the United States, Japan and Australia and a network of distribution partners in more than 100 countries. Ellex maintains a strong emphasis on intellectual property and research into new and better treatments to manage and treat the leading causes of blindness.

For additional information about Ellex and its products, please visit www.ellex.com

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