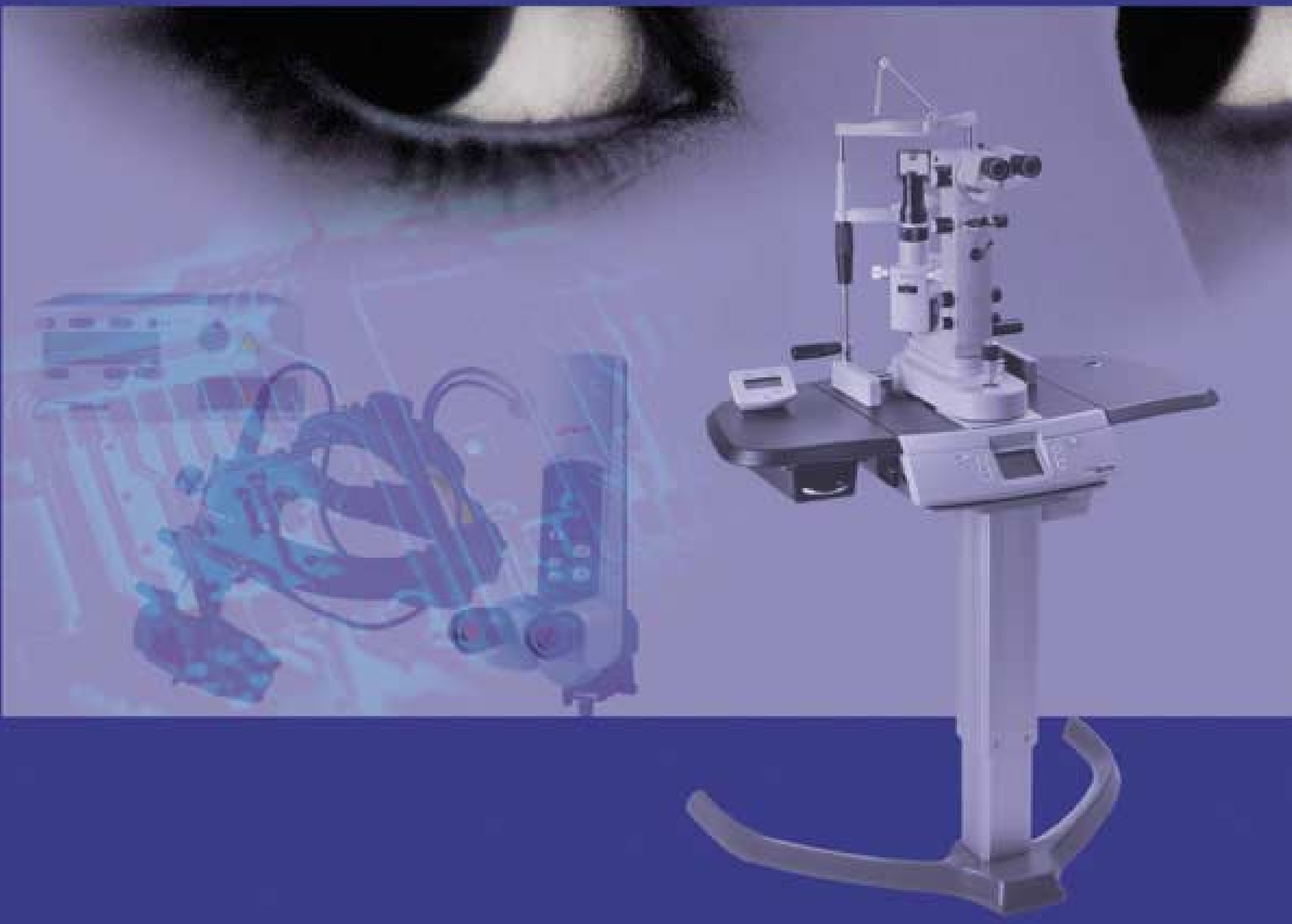


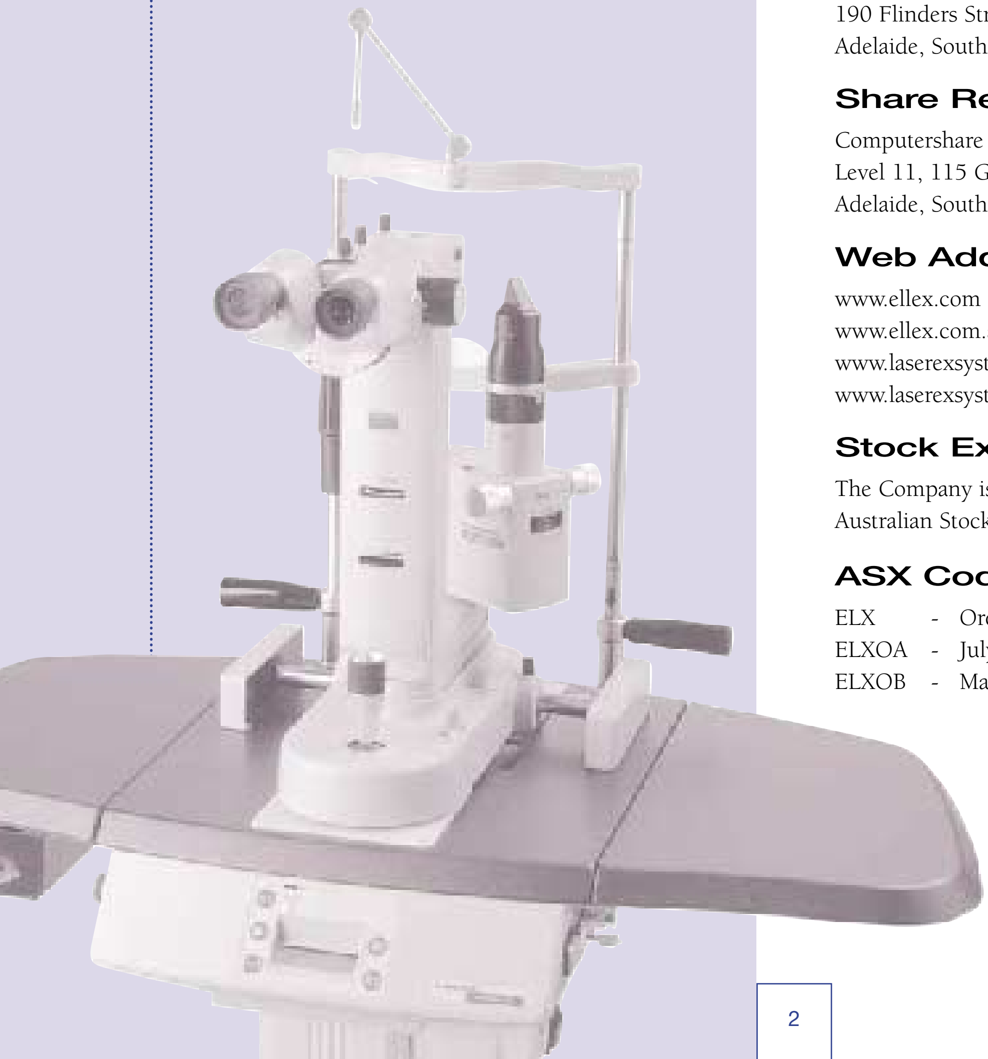
Ellex Medical Lasers Limited

ABN 15 007 702 927

ANNUAL REPORT 2003

Ellexmedical

Contents



Corporate Directory

Directors

David J Lindh LLB, FTIA FAICD (Non-Executive Chairman)
Victor Previn BE (Managing Director)
Peter Falzon BEc (Non-Executive Director)
K R (Bob) Johnson PhD (Non-Executive Director)

Company Secretary

Kevin P McGuinness BAA ACA

Registered Office

82 Gilbert Street
Adelaide, South Australia, 5000
Telephone 08 8104 5200
Facsimile 08 8104 5210

Legal Advisors

Thomson Playford
101 Pirie Street
Adelaide, South Australia, 5000

Minter Ellison
1 King William Road
Adelaide, South Australia, 5000

Auditors

Deloitte Touche Tohmatsu
190 Flinders Street
Adelaide, South Australia, 5000

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 115 Grenfell Street
Adelaide, South Australia, 5000

Web Address

www.ellex.com
www.ellex.com.au
www.laserexsystems.com
www.laserexsystems.com.au

Stock Exchange

The Company is listed on the
Australian Stock Exchange Ltd (ASX)

ASX Code

ELX - Ordinary Shares
ELXOA - July 2004 Options
ELXOB - May 2004 Options

Highlights...

Net Profit after Tax and before Amortisation of Goodwill of $2.737 million. This is considered a strong result in light of the flat economic global conditions and the middle-east crisis resulting in our customers deferring capital equipment expenditure during the reporting period and the financial issues facing one of our large trading contract OEM customer, Lumenis Inc.

Generated positive operating cash flow of $2.729 million underlying the strong cash generating potential of the Ellex business. This positive cash result enabled Ellex to ensure it has no debt other than a loan of $2 million on the Adelaide property and over $1 million of cash in the bank at balance sheet date.

Completed development of the Selective Laser Trabeculoplasty (SLT) product which is Ellex's first product in the potentially lucrative glaucoma market. Initially this product has been sold through Lumenis however an Ellex variant will be ready for sale by December 2003.

Strengthened the Board and management team with a number of key appointments. Ellex will continue to focus on developing and growing a team capable of expanding Ellex in the global market place.

'Laserex' sales in the US increased 24% over the prior year underlying the continuing strength of our brand and the benefits of establishing direct ownership of distribution in key markets.

Chairman's Review

It is with pleasure that I present our 2003 Annual Report.

Despite what has been a testing twelve months with difficult trading conditions world wide in our industry, I am pleased to advise that a solid Net Profit after Tax and before Goodwill Amortisation of $2.737m has been achieved. Although this is down on last year it is important to understand some of the issues faced over the last 12 months.

- Subdued economic environments in our major markets, particularly the US and Europe
- Significant uncertainty affecting consumer confidence caused by the crisis in the middle east earlier this year
- The troubled state of one of our major OEM customers, Lumenis Inc.

During the year the company paid a maiden dividend of 2.5c per share fully franked (paid 16 December 2002).

We finished the year in a good financial position with strong cash flow continuing. Our strategy is for significant growth in revenue over the next five years, commencing with a substantial commitment to the development of new products with a new research and development team based in the US and the establishment of our own distribution channels in Asian markets.

There have been some changes to your Board of Directors over the past year and I am pleased to say that we continue to have a strong Board with international experience relevant to our industry. In November 2002, Mr Geoff Hill resigned and I would like to thank Geoff for his contribution, particularly through the process of change from a private to a public company. Mr Peter Falzon joined the Board in November 2002 and brings with him significant experience in the ophthalmic laser industry having previously been a senior executive with Coherent Medical in the US and Japan. Dr Bob Johnson joined the Board in April 2003 this year and brings strong experience in technology and international distribution. We will look for opportunities to further strengthen the Board over the coming year.

Following the departure of Mr Peter Rowland in November 2003, the company appointed Mr Victor Previn as Managing Director. Victor quickly restructured and focussed our management team on the challenges at hand delivering positive results.

Our industry is undergoing some change due to the distressed position of a number of major players and this has presented Ellex with some challenges and interesting opportunities. These opportunities will require Ellex to invest in a broader product range and to develop new distribution channels.

This is a time of exciting opportunity for our company. I look forward to the continued support of our shareholders. I would like to thank my fellow directors, our management team and employees for their hard work during the year.

David J Lindh LLB, FTIA FAICD
Non-Executive Chairman

Managing Director's Review

Ellex Medical Lasers Limited (Ellex) has emerged from a difficult trading year, with a good result relative to the performance of our industry sector. This year we achieved revenue of $26.1m, which was down by 7% on the previous year.

By comparison, the global ophthalmic laser industry was also down. Spectrum Marketing of California reported that the industry was down by 7%, so Ellex was right on that average.

Earnings before interest and tax were down by 30% to $3.8m.

Ellex derives its revenues from the sale of medical laser capital equipment to ophthalmic surgeons all over the world. Sold under the Laserex® brand, Ellex provides a range of lasers for the treatment of secondary cataracts and retinal diseases, as well as glaucoma.

Our customers, the ophthalmic surgeons of the world, are private practitioners who are largely owner/operators of small businesses. In this period of economic uncertainty that has followed September 11 and the aftermath of the Tech Wreck, sales subsided as our customers chose to defer expenditure on capital equipment to await the return of more certain times.

Unfortunately, at the start of our financial year, we did not predict this trend, assuming that our market segments were recession proof, as our lasers are used to treat diseases influenced principally by ageing population rather than economic factors.

Based on the good sales of the previous period, Ellex poised itself for another growth year by expanding its team, levels of inventory and expenses. By the end of the first quarter it became apparent that sales were not tracking projections as a result of two factors; the general economic downturn, as well as the ailing fortunes of our distributor partner, Lumenis, based in California. Lumenis, (formerly Coherent Medical) a significant distribution partner that had contributed up to 30% to the Ellex revenues in the past years, began to experience severe difficulties in integration of one of its acquisitions (HGM). As this project became the increasing focus of management's attention, Lumenis began to falter. The impact on Ellex was a declining demand for lasers.

The trend became apparent to management at Ellex resulting in the profit warning that we released to the market in November 2002. Following this difficult realisation the task ahead involved reshaping the management structure, then paring back overheads to match the level of income expected.

Ellex had undertaken a significant development project in conjunction with Lumenis in this period. This was the design of a new laser for the treatment of glaucoma, using the principle of SLT that could treat glaucoma in a minimally invasive drug free manner, a technique that had been developed by Massachusetts General Hospital in Boston.

Ellex had contracted to Lumenis, to develop a combination Photodisruptor and SLT glaucoma treatment laser and agreed to manufacture the product as an exclusive OEM product for worldwide distribution by Lumenis.

Victor Previn BE
Managing Director

Under the terms of the arrangement, Ellex undertook to release the product in to production by early in the calendar year 2003, and to step up production by mid year. The arrangements gave Lumenis exclusivity in the USA and Japan, with Ellex able to enter the markets in the rest of the world with a product based on the same technology platform but different in features, after one year of delay.

This meant that Lumenis and Ellex would be the only two companies worldwide that had access to this exciting new technology platform.

The total market size for this treatment laser has not yet been measured but the market for drugs used to treat the same condition exceeds A$5 billion per annum. Initial data showed that revenues of A$10m per annum could be achieved within three years, making a significant contribution to the Ellex revenue stream.

Over the course of this year, the Management Team at Ellex completed a strategic plan for the growth of the business for the following five years. The plan involves the development of an impressive range of products to provide a full portfolio of lasers for the post cataract, retinal and glaucoma segments of the ophthalmic market. This range will be developed over the next several years and give Ellex the platform to become the premier supplier of lasers to the ophthalmic industry.

Profiles

Directors

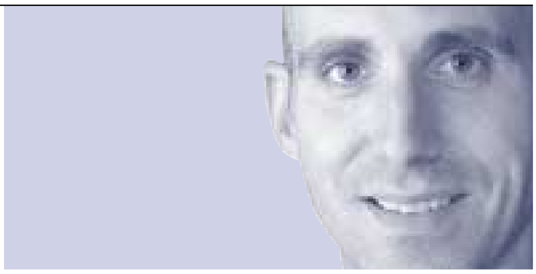
David Lindh,
Non-Executive Chairman

David Lindh is a solicitor, consultant and company director with over 30 years experience. He is chairman and a director of a number of public and private companies, as well as government and non-profit organisations. Mr Lindh is a consultant with Minter Ellison Lawyers and advises in the area of corporations and securities law, government and international trade. He has been adviser to the South Australian Government on various commercial matters, including restructuring and privatisation.

Victor Previn,
Managing Director

Victor Previn is a professional engineer and one of the original founders of Ellex. He has a career that spans more than 25 years in the laser industry. Mr Previn was responsible for developing and commercialising the technology platform that is the core of Ellex's current production. He has spent more than 15 years in the ophthalmic laser industry travelling widely throughout Asia, Europe and the USA in a business development capacity. He has been the Managing Director since November 2002.

Peter Falzon,
Non-Executive Director

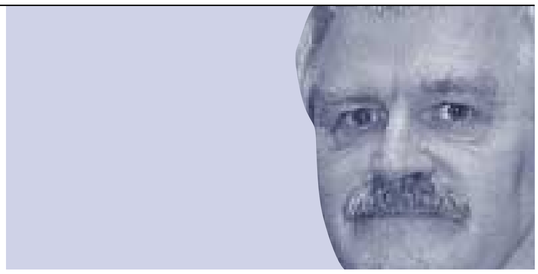


Peter Falzon has considerable experience in business development and global distribution of ophthalmic equipment and is the Vice President of Business Development at Altus Medical Inc. Altus is a pre-IPO US$40 million company providing laser and light based solutions for physicians to provide elective procedures to their patients to enhance their health and appearance. Prior to this, he was the Senior Director of the Ophthalmic Business unit of Coherent – a US$450 million revenue medical laser company listed on the Nasdaq. Peter is also a member of the Ellex Medical Advisory Board.

Profiles

Bob Johnson,
Non-Executive Director

Bob Johnson is an Adelaide-based businessman with wide interests in technology and mining. He is the Chairman of the Maptek Group which has grown its software and laser mapping business through the world. He has extensive experience in overseas business development and marketing strategies. He is Chairman of Havilah Resources NL, an exploration company operating in South Australia, as well as several other private companies. He is also Chairman of Solution City, an industry-sponsored initiative to promote the technology companies of Adelaide.



Company Secretary

Kevin McGuinness

Kevin joined Ellex in October 2002 as Chief Financial Officer and Company Secretary. Kevin has over 15 years senior financial management experience of public and private companies. Kevin joined Ellex from Nautilus, an ASX listed company with revenue of approximately $90 million in the food and logistics arena. Prior to this Kevin was Director, Finance & Operations for Urban Pacific where he managed the commercial and financial elements of a number of significant and complex property projects. Kevin holds a Bachelor of Arts in Accounting from the University of South Australia and is a Chartered Accountant having worked for seven years in Australia and the UK for Deloittes.

Operating Results of Ellex Medical Lasers Limited

Comparison of Operating Results ($'000) Statement of Financial Performance	Ellex Medical Lasers Limited 2003	Ellex Medical Lasers Limited 2002	Ellex Medical Pty Ltd* 2001	Ellex Medical Pty Ltd* 2000	Ellex Medical Pty Ltd* 1999	Ellex Medical Pty Ltd* 1998
Operating revenue	25,950	27,354	21,661	17,939	10,355	13,471
Total cost of goods sold	(14,633)	(13,894)	(11,671)	(10,769)	(5,566)	(8,451)
Total other expenses	(7,645)	(7,973)	(5,713)	(4,163)	(4,106)	(3,738)
Total other revenue	160	622	1,289	333	(27)	304
EBITDA	3,832	6,109	5,566	3,340	656	1,586
Deprecation and amortisation	(1,418)	(1,331)	(180)	(151)	(141)	(128)
EBIT	2,414	4,778	5,386	3,189	515	1,458
Interest income and (expense)	(198)	(60)	169	(74)	(49)	(13)
Net profit before tax	2,216	4,718	5,555	3,115	466	1,445
Tax expense	(584)	(1,437)	(2,100)	(1,111)	(69)	(507)
Net profit after tax	1,632	3,281	3,455	2,004	397	938
Outside equity interest	-	(166)	(204)	(179)	(46)	(253)
Net profit after tax minorities	1,632	3,115	3,251	1,825	351	685
Net Profit after tax before goodwill amortisation	**2,737**	**4,168**	**3,251**	**1,825**	**351**	**685**

** Previously Taracan Pty Ltd*

Ellex Medical Lasers Limited

Financial Report

for the year ended 30 June 2003

Financial Report

for the year ended 30 June 2003

The Directors present their report together with the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the auditor's report thereon.

Contents

Corporate Governance Statement 2003

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors and its Committees

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Board Process

To assist in the execution of its responsibilities, the Board has established an Audit Committee. Given the size of the organisation, the role of the Nomination and Remuneration Committee is undertaken by the Board itself. There are written mandates and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risks management process and the establishment of appropriate ethical standards.

The full Board currently holds twelve scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the managing director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

Composition of the Board

The names of the directors of the company in office at the date of this Statement are set out in the directors' report on page 17 of this financial report.

The composition of the Board is determined using the following principles.

- A minimum of three directors, with a broad range of expertise both nationally and internationally
- A non-executive director as Chairman
- A majority of non-executive directors, with at least 50% being independent non-executive directors
- Enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- At each Annual General Meeting one-third of the directors (except for the managing Director) or, if their number is not a multiple of three, then the number nearest but not exceeding one-third shall retire from office by rotation. The directors to retire each year will be those directors who have served the longest since their last election.

An independent director is a director who is not a member of management (a non-director) and who:

- Is not a substantial shareholder of the company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the company
- Has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment
- Within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member
- Is not a significant supplier or customer of the company or another group member, or an officer of or otherwise associated, directly or indirectly with a significant supplier or customer
- Has no material contractual relationship with the company or another group member, other than as a director of the company
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated entity are set out in Note 36.

Nomination Committee

The Board of Directors oversees the appointment and induction process for directors. The Chairman proposes a short list of candidates with the appropriate skills and experience, which is then presented to the full Board. Where appropriate, external consultants can be engaged to assist in the process. The full Board will approve, by a unanimous vote, the most suitable candidate. The Board must sanction appointees to the Advisory Committees to management. The newly appointed member of the Board must then stand for election at the next Annual General Meeting of the Company.

The performance of all directors is reviewed by the Chairman each year.

Director Education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations.

Director Dealings in Company Shares

Directors and senior management may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:

- For a period from 31 December, and 30 June to the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX")
- Whilst in possession of price sensitive information.

Directors must obtain the approval of the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Company, and it is subject to Board veto. Directors must advise the ASX of any transactions conducted by them in shares in the Company.

Independent Professional Advice and Access to Company Information

Each director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the consolidated entity's expense. A copy of advice received by the director is made available to all other members of the Board.

Remuneration Committee

The Board of Directors reviews remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. It evaluates the performance of the Managing Director and monitors management succession planning. It is also responsible for share option schemes, policies and professional indemnity and liability insurance policies applicable. Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. The Board obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

Director's base fees are presently $40,000 per annum. The Chairman receives the base fee plus $10,000 per annum. Director's fees cover all main Board but exclude membership of the Audit Committee. A fee of $5,000 per annum is payable for membership of the Audit Committee. The Company does not have a formal Board Retirement scheme.

Further details of directors' remuneration, superannuation and retirement payments are set out in the directors' report and Note 4 to the financial statements.

Audit Committee

The Audit Committee has a documented Charter, approved by the Board. All members must be non-executive directors or independent consultants with a majority being independent. The Chairman may not be the Chairman of the Board. The Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

Mr D Kerr (Chairman of Audit Committee) – Independent Consultant
Mr D Lindh – Non-Executive Director
Mr G Hill – (Resigned 21 November 2002) – Non-Executive Director
Mr P Falzon – (Appointed 26 November 2002) – Non-Executive Director

The external auditors, the Managing Director and Chief Financial Officer, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met four times during the year.

The external auditor met with the Audit Committee and the Board of Directors twice during the year.

The Audit Committee also conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner. The Charter is available to members on request.

The responsibilities of the Audit Committee include:

- Reviewing the annual and half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles
- Monitoring corporate risk assessment processes
- Reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting period beginning on 1 July 2005
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence
- Reviewing the nomination and performance of the external auditor. The external auditors were appointed on 25 November 2002
- Monitoring the establishment of an appropriate internal control framework and appropriate ethical standards
- Monitoring compliance with the Company's Fraud Control Plan and prompt and appropriate rectification of any deficiencies or breakdowns identified
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

- To discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- Prior to announcement of results:
  - ❖ To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings
  - ❖ To recommend Board approval of these documents
- To finalise half-year and annual reporting:
  - ❖ Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made
  - ❖ Review the draft financial report and recommend Board approval of the financial report
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

Internal Control Framework

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has instigated the following internal control framework:

- Financial reporting – Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly
- Continuous disclosure – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the ASX and post them on the Company's web site. The Board of Directors and the Chief Financial Officer/Company Secretary are responsible for all communications with the ASX
- Quality and integrity of personnel – Formal appraisals are conducted at least annually for all employees
- Operating units control – Compliance with financial controls and procedures including information systems controls detailed in procedures manuals is obtained from the Managing Director and Chief Financial Officer
- Functional speciality reporting – Key areas subject to regular reporting to the Board include Treasury and Derivatives Operations and Tax Compliance matters
- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Internal Audit

The Company does not have a formal and separate internal audit function. During the year ongoing review of operations of the business is undertaken by management.

Australian Quality Standard AS/NZS ISO 9002

The consolidated entity strives to ensure that its products are of the highest standard. Towards this aim it has undertaken a program to achieve AS/NZS ISO 9002 accreditation for each of its business segments.

Business Risk Management

The Audit Committee advises the Board and reports on the status of business risks. Major business risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements, difficulties in sourcing supplies and the purchase, development and use of information systems.

The consolidated entity's risk management policies and procedures cover environment, occupational health and safety, property, financial reporting and internal control.

Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue within employees and senior management. A succession plan is also in place to ensure senior positions are filled by competent and knowledgeable employees when retirements or resignations occur. The consolidated entity's management of environmental risk is discussed under "Environmental Regulation" within the directors' report.

Further details of the company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in Note 38 to the financial statements.

Comprehensive practices are established such that:

- Capital expenditure and revenue commitments above a certain size require prior Board approval
- Financial exposures are controlled, including the use of derivatives
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- Business transactions are properly authorised and executed.

Ethical Standards

The consolidated entity has advised each director, manager and employee they must comply with the Ethical Standards Manual.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The manual is reviewed regularly by the Board and processes are in place to promote and communicate these policies.

The Role of Shareholders

The Board informs shareholders of all major developments affecting the consolidated entity's state of affairs as follows:

- The full annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders
- Any information which the Board considers worthy of disclosure to shareholders is activated by release to the ASX

All documents that are released publicly are made available on the consolidated entity's internet web site at www.ellex.com.au.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

Directors Report 2003

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2003. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

(a) Directors

The directors of the company during or since the end of the last financial year are:

D J Lindh (Chairman of Directors)
David Lindh is 58 years old and was reappointed as a director at the annual general meeting held 28 November 2001, having previously been a Director since 4 April 2000. He has over 30 years experience as a commercial lawyer and company director, and is a director of a number of public and private companies.

V Previn (Managing Director)
Victor Previn is 45 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. He is currently Managing Director. He has considerable experience in the ophthalmic laser industry and was one of the original founders and shareholders of Ellex.

P J Falzon (Non-Executive)
Peter Falzon is 40 years old and was appointed a director on 26 November 2002. Peter has considerable experience in business development and global distribution of ophthalmic products having worked as a senior executive with Coherent in the US and Japan.

Dr K R (Bob) Johnson (Non-Executive)
Bob Johnson is 56 years old and was appointed a director on 30 April 2003. He has significant experience in growing international companies and international distribution as the founder and Managing Director of Maptek, a software company and supplier of computer applications to the mining industry.

P Rowland
Peter Rowland resigned as a director on 4 November 2002

G G Hill
Geoff Hill resigned as a director on 21 November 2002

(b) Principal Activities

The Company's principal activity has been the development, manufacture and distribution of medical laser equipment for application in ophthalmic procedures.

(c) Review and Results of Operations

The consolidated profit for the year after income tax and outside equity interests was $1.632 million compared to $3.115 million for 2001/2002.

A review of operations and results of these operations of the consolidated entity during the financial year are contained in the Chairman's Report and Managing Director's report which forms part of the Annual report for the Company.

(d) State of Affairs

In the opinion of the Directors, there were no significant changes to the state of affairs of the consolidated entity that occurred during the financial year.

(e) Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per Share	Total Amount $'000	Franked/ Unfranked	Date of Payment
In respect of the previous financial year:				
- Final – Ordinary	2.5	1,531	Franked	16 Dec 2002
	Note			
Dealt with in this financial report as:				
- Dividends	29			

All the franked dividends paid by the Company since the end of the previous financial year were franked to 100% at the 30% corporate tax rate.

(f) Shares and Options

(1) Shares and options issued during the year are outlined in Note 26 to the financial statements.

(2) Directors and Employees Share Option Scheme

On 9 July 2001, a Directors and Employees Share Option Plan was approved at an extraordinary meeting of shareholders.

On 26 November 2002, under the rules of the Directors and Employees Share Option Scheme, the Directors' approved the issue of 689,835 options for management and employees exercisable at $0.50 by 25 November 2005. These options expire upon termination of employment. Options issued to executives were as follows:

Executives	Number of Options Granted	Issuing Entity	Number of Ordinary Shares under Option
A Kalatzis	69,667	Ellex Medical Lasers Limited	69,667
L Walker-Roberts	23,000	Ellex Medical Lasers Limited	23,000

In addition, 50,000 options were issued to director Peter Falzon on the same date.

(g) Subsequent Events

Apart from matters discussed elsewhere in the Annual Report, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2003 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of these operations, or state of affairs of the consolidated entity in future years.

(h) Future Developments

The company will continue to focus on the further development of its business being the development, manufacture and distribution of medical laser equipment for use in ophthalmic procedures worldwide.

Further disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

(i) Legal Matters

During the year the company successfully defended a claim against it in the USA by a former Gemstone Managing Director of the Company. This decision was the subject of an appeal which has now been dismissed.

(j) Meetings of Directors

The number of Directors meetings (including meetings of committees of Directors) and number of meetings attended by each Director of the Company during the financial year were:

	Regular Meetings		Audit Committee	
	A	B	A	B
D J Lindh	14	14	4	4
G G Hill	4	4	1	1
V Previn	14	14	-	-
P Rowland	4	4	-	-
P Falzon	10	10	1	2
K R Johnson	4	4	-	-

A - Number of meetings attended

B - Number of meetings held during the time the Director held office

(k) Directors' Interests

The interests of each director in the ordinary share capital of the company as at the date of this report are as follows:

	Interests of Directors		Interests of Director Related Entities	
	Ordinary Shares	Options	Ordinary Shares	Options
D J Lindh	6,000	4,000	648,072	1,413,392
V Previn	-	-	3,000,000	3,500,000
P Falzon	-	-	-	50,000
K R Johnson	-	-	40,000	-

(l) Directors' & Executive's Remuneration

The Remuneration Committee reviews the remuneration packages of all Directors and Executive officers on an annual basis and makes recommendations to the board. Remuneration packages of all directors and executive officers are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the remuneration committee seeks the advice of external advisers in connection with the structure of remuneration packages.

Remuneration packages contain the following key elements:

(a) Salary/fees;

(b) Benefits - including the provision of motor vehicle, superannuation and health benefits; and

(c) Incentives schemes - including performance related bonuses and share options under the Directors' and Employee Share Option plan as disclosed in note 6 to the financial statements.

Name		Salary / Fees	Consultancy Fees	Incentive Schemes	Benefits	Total
DJ Lindh	Non Executive Director	55,000	40,000	-	4,950	99,950
GG Hill (resigned 21 Nov 02)	Non Executive Director	20,000	-	-	1,800	21,800
P Rowland (resigned 4 Nov 02)	Previous Managing Director	179,215	-	-	21,016	200,231
V Previn	Managing Director	230,596	-	-	34,654	265,250
P Falzon	Non Executive Director	14,999	28,151	500	-	43,650
KR Johnson	Non Executive Director	6,666	-	-	-	6,666
	Total	**506,476**	**68,151**	**500**	**62,420**	**637,547**

Emoluments of the five most highly paid executive officers of the Company and consolidated entity including the Executive Directors:

Name		Salary / Fees	Benefits	Incentive Schemes	Total
P Rowland	Previous Managing Director	179,215	21,016	-	200,231
V Previn	Managing Director	230,596	34,654	-	265,250
B Swaim	President – Laserex Inc - US	215,257	32,288	647	248,192
L Walker-Roberts	Previous Vice President Sales - Europe & Japan	138,646	13,723	-	152,369
A Kalatzis	Business Development Manager	118,025	24,827	647	143,499
	Total	**881,739**	**126,508**	**1,294**	**1,009,541**

(m) Directors' and Auditors' Indemnification

- On 9 July 2001, at an Extraordinary General Meeting, the company passed a resolution to adopt a Deed of Access and Indemnity for the current directors.
- On 30 January 2003 the Company signed a Deed of Access and Indemnity for Directors' D J Lindh, V Previn, P Falzon and Company Secretary K McGuinness. A Deed of Assumption was executed for KR Johnson on 30 April 2003 in relation to the Deed of Access and Indemnity.
- The Company has not otherwise, during the financial year indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such an officer or auditor.

(n) Rounding

The Company is a company of the kind referred to in ASIC Class Order 98/0100 dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the directors

David J Lindh
Chairman
25 August 2003

Independent audit report to the members of Ellex Medical Lasers Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Ellex Medical Lasers Limited (the company) and the consolidated entity, for the financial year ended 30 June 2003 as set out in pages 21 to 44. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of Ellex Medical Lasers Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Harvey
Partner
Chartered Accountants
Adelaide, 25 August 2003

The liability of Deloitte Touche Tohmatsu is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Directors Declaration for the year ended 30 June 2003

The Directors declare that:

(a) The attached financial statements and notes comply with accounting standards;

(b) The attached financial statements and notes give a true and fair view of the financial position and performance of the Company and the Consolidated Entity

(c) In the Directors opinion, the attached financial statements and notes are in accordance with the Corporations Act 2001; and

(d) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of Directors

David J Lindh
Chairman
25 August 2003

Statement of Financial Performance for the year ended 30 June 2003

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Revenue from ordinary activities		26,128	28,046	1,540	1,383
Raw materials and consumables used		(13,429)	(12,765)	-	-
Changes in labour and overhead		406	303	-	-
Employee benefits expense		(6,791)	(6,608)	-	(57)
Legal fees		(105)	(208)	-	(135)
Depreciation and amortisation expense		(1,418)	(1,331)	-	-
Advertising and marketing		(407)	(537)	-	-
Borrowing costs		(216)	(130)	-	(1)
Other expenses from ordinary activities		(1,952)	(2,052)	(8)	(786)
Profit from ordinary activities before income tax expense	2	2,216	4,718	1,532	404
Income tax (expense)/benefit relating to ordinary activities	3	(584)	(1,437)	195	(128)
Profit from ordinary activities after related income tax expense		1,632	3,281	1,727	276
Net profit attributable to outside equity interests		-	(166)	-	-
Net profit attributable to members of the parent entity		1,632	3,115	1,727	276
Decrease in foreign currency translation reserve arising on translation of self-sustaining foreign operations	27	(388)	(223)	-	-
Total changes in equity other than those resulting from transactions with owners as owners		1,244	2,892	1,727	276
Earnings per share					
- Basic (cents per share)	30	2.7	5.8		
- Diluted (cents per share)	30	2.7	5.4		

Notes to the financial statements are included on pages 25 to 44

Statement of Financial Position as at 30 June 2003

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Current assets					
Cash assets		1,059	939	-	699
Receivables	9	3,626	5,446	4,263	3,610
Inventories	10	8,013	6,959	-	-
Current tax assets	19	75	-	2	-
Other current assets	11	122	119	-	9
Total current assets		12,895	13,463	4,265	4,318
Non-current assets					
Other financial assets	12	-	-	24,099	24,099
Property, plant and equipment	13	3,684	3,564	-	-
Intangibles	14	19,956	21,069	-	-
Deferred tax assets	15	540	673	92	7
Total non-current assets		24,180	25,306	24,191	24,106
Total assets		37,075	38,769	28,456	28,424
Current liabilities					
Payables	17	3,186	3,555	-	99
Interest-bearing liabilities	18	73	632	-	-
Current tax liabilities	19	-	980	-	135
Provisions	20	606	546	-	-
Other	21	427	-	-	-
Total current liabilities		4,292	5,713	-	234
Non-current liabilities					
Interest-bearing liabilities	22	2,087	2,185	-	-
Provisions	23	106	65	-	-
Total non-current liabilities		2,193	2,250	-	-
Total liabilities		6,485	7,963	-	234
Net assets		30,590	30,806	28,456	28,190
Equity					
Contributed equity	26	27,985	32,280	27,984	32,280
Reserves	27	2,605	2,892	472	-
Retained losses	28	-	(4,366)	-	(4,090)
Total equity		30,590	30,806	28,456	28,190

Notes to the financial statements are included on pages 25 to 44

Statement of Cash Flows
for the year ended 30 June 2003

	Note	Consolidated Inflows (Outflows) 2003 $'000	Consolidated Inflows (Outflows) 2002 $'000	Company Inflows (Outflows) 2003 $'000	Company Inflows (Outflows) 2002 $'000
Cash flows from operating activities					
Receipts from customers		28,400	24,079	-	11
Payments to suppliers and employees		(23,921)	(22,602)	2	(2,891)
Interest and bill discounts received		2	70	9	49
Interest and other costs of finance paid		(201)	(130)	-	(1)
Dividends received		-	-	1,531	-
Income tax paid		(1,551)	(2,433)	-	-
Net cash from/(used in) operating activities	37(d)	2,729	(1,016)	1,542	(2,832)
Cash flows from investing activities					
Payment for purchase of a business	37 (b)	-	(24,977)	-	(23,969)
Payment for property, plant and equipment		(484)	(3,048)	-	-
Proceeds from sale of property, plant and equipment		47	-	-	-
Net cash used in investing activities		(437)	(28,025)	-	(23,969)
Cash flows from financing activities					
Proceeds from issues of equity securities		73	27,124	70	27,124
Payment for share issue costs		(3)	-	-	-
Repayment of borrowings		(1,400)	(1,029)	(780)	-
Proceeds from borrowings		1,423	3,027	-	-
Dividends paid		(1,531)	-	(1,531)	-
Repayment of leases		(128)	(62)	-	-
Net cash from/(used in) financing activities		(1,566)	29,060	(2,241)	27,124
Net increase/(decrease) in cash held		726	19	(699)	323
Cash at the beginning of the financial year		368	376	699	376
Effects of exchange rate changes on the balance of cash held in foreign currencies		(35)	(27)	-	-
Cash at the end of the financial year	37(a)	1,059	368	-	699

Notes to the financial statements are included on pages 25 to 44

Notes to the Financial Statements for the year ended 30 June 2003

1. Summary of Accounting Policies

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Accounts Payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(c) Capital Gains Tax

No provision has been made for capital gains tax which may arise in the event of sale of revalued assets as no decision has been made to sell any of these assets.

(d) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. Depreciation is calculated on a straight line and diminishing value basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

• Buildings	40 years
• Plant & equipment	2.5 - 20 years
• Equipment under finance lease	6.5 years

(e) Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts. Further details of derivative financial instruments are disclosed in note 38 to the financial statements.

Foreign Exchange Contracts

Exchange differences on forward foreign exchange contracts to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

In the event of the early termination of a foreign currency hedge of an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur; or
- recognised in net profit or loss at the date of termination, if the anticipated transaction is no longer expected to occur.

(f) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, long service leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

(g) Foreign Currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are recognised in net profit or loss in the period in which they arise except that:

i) exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and

ii) exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

In relation to transactions intended to hedge specific purchases or sales:

i) costs or gains arising at the time of entering into the transactions; and

ii) exchange differences, to the extent that they arise up to the dates of purchase or sale, are deferred and included in the measurement of the purchases or sales.

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are transferred on consolidation to the foreign currency translation reserve.

Financial statements of self-sustaining foreign controlled entities are translated at reporting date using the current rate method and exchange differences are taken directly to the foreign currency translation reserve.

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the acquisition of an asset or as part of an item of expense; or

ii) for receivables and payables which are recognised inclusive of GST

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

(i) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 20 years.

(j) Income Tax

Tax-effect accounting policies are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

(k) Interest-Bearing Liabilities

Bills of exchange are recorded at an amount equal to the net proceeds received, with the premium or discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis.

Debentures, bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expenses are recognised on an accrual basis.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand at standard cost.

(m) Investments

Investments in controlled entities are recorded at cost. Other investments are recorded at cost.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

(n) Leased Assets

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(o) Patents, Trademarks and Licences

Patents, trademarks and licences are recorded at cost and amortised on a straight line basis over a period of 20 years.

(p) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 1024 'Consolidated Accounts'. A list of controlled entities appears in note 34 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealized profits arising within the consolidated entity are eliminated in full.

(q) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors.

(r) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

(s) Recoverable Amount of Non-Current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(t) Research and Development Costs

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortized deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable. During the current year no costs have been deferred.

Any deferred research and development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial production of the product.

The unamortized balance of research and development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written-off as an expense in net profit or loss.

Government grants received or receivable in relation to research and development costs, which are deferred, are deducted from the carrying amount. Grants received or receivable in relation to research and development costs, which are recognised as an expense during the current or previous periods, are recognised as revenue in net profit or loss.

(u) Revenue Recognition

Sale of Goods and Disposal of Assets – Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

2. Profit from Ordinary Activities

Profit from ordinary activities before income tax includes the following items of revenue and expense:

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
(a) Operating revenue				
Sales revenue:				
Sale of goods	25,950	27,354	-	-
Interest revenue:				
Other entities	18	70	9	48
Dividends received:				
Wholly owned controlled entities	-	-	1,531	-
Foreign exchange gain	-	343	-	-
Other	113	55	-	1,111
	26,081	27,822	1,540	1,159
(b) Non Operating revenue				
Proceeds from sale of assets (note 8)				
Property, plant and equipment	47	-	-	-
Investments	-	224	-	224
	47	224	-	224
	26,128	28,046	1,540	1,383
(c) Expenses				
Cost of sales	14,633	13,894	-	180
Borrowing costs				
Interest:				
Finance leases	21	15	-	-
Other entities	195	115	-	1
	216	130	-	1
Net bad and doubtful debts	-	100	-	-
Depreciation of non-current assets:				
Property, plant and equipment	305	237	-	-
Amortisation of non-current assets:				
Goodwill	1,105	1,053	-	-
Other intangibles	8	41	-	-
	1,113	1,094	-	-
Total depreciation and amortisation of non-current assets	1,418	1,331	-	-
Plant & equipment:				
WDV of plant and equipment disposed of	58	87	-	70
Current assets:				
WDV of mining lease bonds disposed of	8	-	8	-
Research and development costs written off	1,833	1,251	-	-
Net transfers to provisions:				
Warranty	(50)	15	-	-
Operating lease rental expenses				
Minimum lease payments	-	24	-	-
Net foreign exchange loss	106	12	-	-
Legal fees	105	208	-	135
Provision for employee entitlements	52	44	-	-
Superannuation contributions	404	370	-	6

3. Income Tax

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Profit from ordinary activities	2,216	4,718	1,532	404
Income tax expense calculated at 30% of operating profit	665	1,415	460	121
Permanent differences:				
Amortisation of intangible assets	334	318	-	-
Other permanent differences	(232)	29	(552)	7
	102	347	(552)	7
(Over)/under provision of income tax in previous year	(183)	(325)	(103)	-
	(81)	22	(655)	7
Income tax expense attributable to operating profit	584	1,437	(195)	128

Tax Consolidation System

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company. The impact of the mandatory elements of the tax consolidation system on existing deferred tax balances of the economic entity and parent entity has been reflected in the financial statements based on reasonable best estimates.

At the date of this report the directors have not assessed the financial impact, if any, that implementation of the tax consolidation may have on the company and economic entity and accordingly, the directors have not made a decision whether or not to elect to be taxed as a single entity.

The financial effects of the implementation of the tax consolidation system on the company and consolidated entity has not been recognised in the financial statements as the financial effect cannot be reasonably estimated.

4. Directors' Remuneration

The directors of Ellex Medical Lasers Limited during the year were:
DJ Lindh, GG Hill, P Rowland, VK Previn, KR Johnson, P Falzon.

	Consolidated		Company	
	2003 $	2002 $	2003 $	2002 $
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party.			637,547	521,156
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party.	637,547	521,156		

	Consolidated 2003 No.	Consolidated 2002 No.	Company 2003 No.	Company 2002 No.
The number of directors of the company whose total income falls within each successive $10,000 band of income (commencing at $0):				
$0 - $9,999			1	1
$20,000 - $29,999			1	-
$40,000 - $49,999			1	-
$50,000 - $59,999			-	1
$90,000 - $99,999			1	-
$100,000 - $109,999			-	1
$120,000 - $129,999			-	1
$200,000 - $209,999			1	-
$240,000 - $249,999			-	1
$260,000 - $269,999			1	-

5. Executives Remuneration

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Aggregate remuneration of executive officers of the company working mainly in Australia and receiving $100,000 or more from the company or from any related party			1,236,059	864,933
Aggregate remuneration of executive officers of each entity in the consolidated entity working mainly in Australia and receiving $100,000 or more from the entity for which they are executive officers or from any related party	1,236,059	864,933		

	Consolidated 2003 No.	Consolidated 2002 No.	Company 2003 No.	Company 2002 No.
The number of executive officers (including executive directors) whose remuneration falls within each successive $10,000 band of income:				
$100,000 - $109,999	1	1	1	1
$110,000 - $119,999	1	-	1	-
$120,000 - $129,999	1	1	1	1
$130,000 - $139,999	1	1	1	1
$140,000 - $149,999	1	-	1	-
$150,000 - $159,999	1	-	1	-
$200,000 - $209,999	1	-	1	-
$240,000 - $249,999	-	1	-	1
$250,000 - $259,999	-	1	-	1
$260,000 - $269,999	1	-	1	-

6. Employees Share Option Plan

The consolidated entity has an ownership based remuneration scheme for employees and executives (including executive directors). In accordance with the provisions of the scheme, as approved by shareholders at an annual general meeting, employees and executives are granted options to purchase parcels of ordinary shares at a price determined by the directors.

The options granted expire within three years of grant date or when an employee ceases employment with the company, whichever is the earlier.

Share Option Plan	2003 No.	2002 No.
Balance at beginning of financial year (i)	126,000	-
Granted during the financial year (ii)	739,835	126,000
Exercised during the financial year (iii)	(19,000)	-
Lapsed during the financial year (iv)	(65,000)	-
Balance at end of the financial year (v)	781,835	126,000

(i) Balance at the beginning of Financial Year 2003

2002 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(1) Issued 25 March 2002	126,000	01/03/02	25/07/04	$0.50

Employee and executive share options carry no rights to dividends and no voting rights.

In accordance with the terms of the employee and executive share scheme, options issued during the year ended 30 June 2002 vest at their day of issue.

In accordance with the terms of the employee and executive share option scheme, options may be exercised at any time from the date of their issue to the date of their expiry.

(ii) Granted during the Financial Year

2003 Options - Series	No.	Grant Date	Expiry Exercise Date	Exercise Price	Fair Value Received
(2) Issued 16 November 2002	739,835	26/11/02	25/11/05	$0.50	Nil

2002 Options - Series	No.	Grant Date	Expiry Exercise Date	Exercise Price	Fair Value Received
(1) Issued 25 March 2002	126,000	01/03/02	25/07/04	$0.50	Nil

Employee and executive share options carry no rights to dividends and no voting rights.
In accordance with the terms of the employee and executive share scheme, options issued during the year ended 30 June 2003 vest at their day of issue.

(iii) Exercised during the Financial Year

2003 Option - Series	No. of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price	No. of Shares Issued	Fair Value Received	Fair Value Per Share at Date of Issue
(2) Issued 25 March 2002	19,000	01/03/02	July 2002- June 2003	25/01/04	$0.50	19,000	$9,500	Between $0.36 and $1.04

Fair value of consideration received is measured as the nominal value of cash receipts on conversion. The fair value of shares at the date of their issue is measured as the market value at close of trade on the date of their issue.

(iv) Lapsed during the Financial Year

The following equity based instruments issued to employees have lapsed during the reporting period:

Options - Series	2003 No.	2002 No.
Series (1) Issued 25 March 2002	24,000	-
Series (2) Issued 15 January 2003	41,000	-
	65,000	-

Options (1) and (2) are options to purchase ordinary shares for $0.50 per share at any time from the date of their issue to the date of expiry.

The options carry no voting or dividend rights.

(v) Balance at End of Financial Year

2003 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(2) Issued 15 January 2003	698,835	26/11/02	25/11/05	$0.50

2002 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(1) Issued 25 March 2002	83,000	01/03/02	25/07/04	$0.50

Employee and executive share options carry no rights to dividends and no voting rights.

In accordance with the terms of the employee and executive share scheme, options issued during the years ended 30 June 2002 and 2003 vest at their day of issue.

The difference between the total market value of options issued during the financial year, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year as disclosed in notes 4 and 5 to the financial statements.

The amounts are disclosed in remuneration in respect of the financial year in which the entitlement was earned.

Consideration received on the exercise of executive options is recognised in contributed equity. During the financial year $Nil (2002: $Nil) was recognised in contributed equity arising from the exercise of employee and executive options.

7. Remuneration of Auditors

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
(a) Auditor of the parent entity				
Auditing the financial report	51,000	47,400	-	42,400
Other services	-	51,680	-	32,750
	51,000	99,080	-	75,150
(b) Other auditors				
Auditing the financial report-	55,362	-	-	
	-	55,362	-	-
	51,000	154,442	-	75,150

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
8. Sales of Assets				
Sales of assets in the ordinary course of business have given rise to the following profits and losses:				
Net losses				
Investments – Mining assets	8	26	8	26
Property, plant and equipment	13	17	1	-
	21	43	9	26
Net profits				
Property, plant and equipment	2	-	-	-
9. Current Receivables				
Trade receivables	3,227	5,073	-	-
Allowance for doubtful debts	(105)	(105)	-	-
	3,122	4,968	-	-
Mining lease bonds, at cost	-	8	-	8
Goods and services tax (GST) recoverable	36	220	-	3
Sundry deposits recoverable	4	51	-	-
Other debtors	19	-	-	-
Deposit for sale of Mining assets	18	199	-	199
Foreign currency hedge receivable	427	-	-	-
Other – controlled entity	-	-	4,263	3,400
	3,626	5,446	4,263	3,610
10. Current Inventories				
Raw materials – at net realisable value	203	1,036	-	-
Raw materials – at cost	3,228	3,046	-	-
WIP – at net realisable value	86	40	-	-
WIP – at cost	1,499	782	-	-
Finished goods – at net realisable value	162	102	-	-
Finished goods – at cost	2,835	1,953	-	-
	8,013	6,959	-	-
11. Other Current Assets				
Prepayments	122	119	-	9
12. Other Non-Current Financial Assets				
At cost				
Investment in controlled entity	-	-	24,099	24,099

13. Property, Plant and Equipment

	Consolidated				
	Freehold Land $'000	Buildings $'000	Plant & Equipment $'000	Equipment under finance lease $'000	TOTAL $'000
Gross carrying amount					
Balance at 30 June 2002	740	1,901	1,580	216	4,437
Additions	-	11	473	-	484
Net foreign currency exchange differences arising on the translation of financial statements of self-sustaining foreign operations	-	-	(17)	-	(17)
Disposals	-	-	(61)	(136)	(197)
Balance at 30 June 2003	740	1,912	1,975	80	4,707
Accumulated depreciation/amortisation					
Balance at 30 June 2002	-	(37)	(716)	(120)	(873)
Depreciation expense	-	(48)	(245)	(12)	(305)
Net foreign currency exchange differences arising on the translation of financial statements of self-sustaining foreign operations	-	-	16	-	16
Disposals	-	-	48	91	139
Balance at 30 June 2003	-	(85)	(897)	(41)	(1,023)
Net book value					
As at 30 June 2002	740	1,864	864	96	3,564
As at 30 June 2003	740	1,827	1,078	39	3,684

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Buildings	48	37	-	-
Plant and equipment	245	172	-	-
Equipment under finance lease	12	28	-	-
	305	237	-	-

14. Intangibles

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Goodwill	22,108	22,108	-	-
Accumulated amortisation	(2,159)	(1,054)	-	-
	19,949	21,054	-	-
Patents, trademarks and licenses	65	65	-	-
Accumulated amortisation	(58)	(50)	-	-
	7	15	-	-
	19,956	21,069	-	-
Aggregate amortisation allocated, whether recognised as an expense or recognised as part of the carrying amount of other assets during the year:				
Goodwill	1,105	1,053	-	-
Patents, trademarks and licenses	8	41	-	-
	1,113	1,094	-	-

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
15. Deferred Tax Assets				
Future income tax benefit				
Timing differences	540	673	92	7
Future income tax benefit has been reduced by the provision for deferred income tax attributable to timing differences by the amount of:	5	7	-	-

16. Assets Pledged as Security

All assets and uncalled capital of the consolidated entity have been pledged as security for liabilities, as disclosed in notes 18 and 22 to the financial statements.

17. Current Payables

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Trade payables	2,072	2,575	-	28
Accruals	603	483	-	71
Unearned income	21	-	-	-
Payable to directors	179	40	-	-
Other payables	311	457	-	-
	3,186	3,555	-	99

18. Current Interest Bearing Liabilities

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Unsecured:				
Bank overdraft	-	571	-	-
Secured:				
Finance advance	30	8	-	-
Finance lease liabilities (note 33)	43	53	-	-
	73	632	-	-

The secured interest bearing liabilities are secured by the assets under finance.

19. Current Tax Assets/Liabilities

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Income tax payable	-	980	-	135
Income tax refundable	75	-	2	-

20. Current Provisions

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Employee entitlements (note 24)	472	362	-	-
Warranty (note 25)	134	184	-	-
	606	546	-	-

21. Other Current Liabilities

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Deferred gain on foreign currency contracts	427	-	-	-

22. Non-Current Interest-Bearing Liabilities

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Secured:				
Commercial bill for purchase of Land and Buildings	2,000	2,000	-	-
Finance lease liabilities (note 33)	87	185	-	-
	2,087	2,185	-	-

The Commercial Bill is secured by the land and buildings under finance. It rolls every 92 days, and is to be reviewed in 2005.

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
23. Non-Current Provisions				
Employee entitlement (note 24)	106	65	-	-
24. Employees Benefits				
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:				
Current (note 20)	472	362	-	-
Non-current (note 23)	106	65	-	-
Accrued wages and salaries[i]	157	-	-	-
	735	427	-	-
Number of employees at end of financial year	106	111	-	-
25. Provisions				
Warranty				
Balance at beginning of year	184	-	-	-
Additional provisions recognised	145	184	-	-
Payments made	(46)	-	-	-
Reductions resulting from the re-measurement of the estimate future sacrifice	(149)	-	-	-
Balance at end of year	134	184	-	-

The provision for warranty claims represents the directors' best estimate of the future sacrifice of economic benefits that will be required under the consolidated entity's warranty program. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

26. Contributed Equity

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Contributed equity				
61,236,853 fully paid ordinary shares (2002: 61,091,171)	27,985	32,280	27,985	32,280

	2003 No. 000	2003 $'000	2002 No. 000	2002 $'000
Fully paid ordinary share capital				
Balance at beginning of financial year	61,091	32,280	27,939	5,156
Adjust – 1 for 5 consolidation	-	-	(22,351)	-
Shares issued during the year:				
Shares issued at $0.50	146	73	52,709	26,355
Shares issued at $1.00	-	-	2,794	2,794
Transfer from Retained Losses[ii]	-	(4,366)	-	-
Costs of share issues	-	(2)	-	(2,025)
Balance at end of financial year	61,237	27,985	61,091	32,280

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

[i]Accrued wages and salaries are included in the current trade payables balance as disclosed in Note 17 to the financial report.
[ii]During the year, the directors resolved, pursuant to section 258F of the Corporations Act 2001 and without the cancellation of any shares in the Company, to reduce the Company's share capital by canceling paid up capital in the amount of $4,365,854, as this amount reflected a loss relating to the Company's prior business as a jade miner.

Share Options

11,564,398 (2002: 11,691,010) options exercisable at $0.50 each and expiring 25 July 2004 were issued and were not exercised at the end of the year.

2,793,853 (2002: 2,793,853) secondary options exercisable at $1.00 each and expiring 31 May 2004 were issued and were not exercised at the end of the year.

83,000 (2002: 126,000) unquoted employee options exercisable at $0.50 each and expiring 25 July 2004 were issued and were not exercised at the end of the year.

698,835 (2002: Nil) unquoted employee options exercisable at $0.50 each and expiring 25 November 2005 were issued and were not exercised at the end of the financial year.

Further details of the Employee Share Option Plan are contained in note 6 to the financial statements.

27. Reserves

	Consolidated		Company	
	2003 $'000	**2002 $'000**	**2003 $'000**	**2002 $'000**
(a) Reserves comprise				
Foreign currency translation	(611)	(223)	-	-
General profit reserve	3,216	3,115	472	-
	2,605	2,892	472	-
(b) Movements in reserves				
General profit reserve				
Balance at beginning of financial year	3,115	-	-	-
Transfer from retained profits	1,632	3,115	2,003	-
Dividend paid	(1,531)	-	(1,531)	-
Balance	3,216	3,115	472	-
Foreign currency translation reserve				
Balance at beginning of financial year	(223)	-	-	-
Translation of foreign operations	(388)	(223)	-	-
Balance	(611)	(223)	-	-
Balance of reserves at end of financial year	2,605	2,892	-	-

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in note 1(g).

28. Retained losses

Balance at beginning of financial year	(4,366)	(4,366)	(4,090)	(4,366)
Transfer to share capital	4,366	-	4,366	-
Net profit/(loss)	1,632	3,115	1,727	276
Transfer to general profit reserve	(1,632)	(3,115)	(2,003)	-
Balance at end of financial year	-	(4,366)	-	(4,090)

29. Dividends

	2003		2002	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
Fully paid ordinary shares				
Final dividend – franked to 30%	2.5	1,531	Nil	Nil

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Franking account balance	2,294	2,577	25	315

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after tax profits.

As a result the 'franking credits available' were converted from $6,012,034 to $2,576,586 as at 1 July 2002.

This change in the basis of measurement does not change the value of the franking credits to shareholders who may be entitled to franking credit benefits.

30. Earnings Per Share

		Consolidated	
		2003 Cents per share	2002 Cents per share
Basic earnings per share	2.7	5.8	
Diluted earnings per share	2.7	5.4	

	2003 $'000	2002 $'000
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Earnings	1,632	3,281

	2003 No.	2002 No.
Weighted average number of ordinary shares	61,199,771	56,731,567

	2003 $'000	2002 $'000
Diluted earnings per share		
The earnings and weighted average number of ordinary and potential shares used in the calculation of diluted earnings per share are as follows:		
Earnings	1,632	3,281

	2003 No.	2002 No.
Weighted average number of ordinary shares and potential ordinary shares	61,199,771	60,835,990

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	2003 No. '000	2002 No. '000
Ordinary Options	11,564	11,691
Secondary Options	2,794	2,794
Unquoted Employee Options	782	126

31. Commitments for Expenditure

(a) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 33 to the financial statements.

32. Contingent Liabilities

Unsecured

During the year the company successfully defended a claim against it in the USA by a former Gemstone Managing Director of the Company. This decision was the subject of an appeal which has now been dismissed.

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
33. Leases				
Finance Leases				
Leasing arrangements				
Finance leases relate to motor vehicles and plant and equipment with lease terms of between 3 to 5 years. The consolidated entity has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.				
Finance lease liabilities				
No later than 1 year	51	68	-	-
Later than 1 year and not later than 5 years	94	205	-	-
Minimum finance lease payments	145	273	-	-
Less future finance charges	(15)	(35)	-	-
Finance lease liabilities	130	238	-	-
Included in the financial statements as:				
Current interest bearing liabilities (note 18)	43	53	-	-
Non-current interest bearing liabilities (note 22)	87	185	-	-
	130	238	-	-
Operating Leases				
Leasing arrangements				
Operating leases relate to business premises with lease terms of between 3 to 5 years. The business premises lease will be reviewed at the end of the lease term.				
Non-cancellable operating leases				
Not longer than 1 year	43	55	-	-
Longer than 1 year and not longer than 5 years	-	51	-	-
Longer than 5 years	-	-	-	-
	43	106	-	-

34. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest 2003 %	Ownership Interest 2002 %
Parent Entity			
Ellex Medical Lasers Limited	Australia		
Controlled Entities			
Ellex Medical Pty Ltd	Australia	100	100
Ellex R&D Pty Ltd	Australia	100	100
Laserex Systems Inc	USA	100	100

35. Segment Information

The primary segment of the consolidated group is the business selling Ophthalmic Lasers, shown in the consolidated statement of financial performance and statement of financial position in this annual report.

The secondary segment of the consolidated group is geographical as indicated below:

	Revenue from External Customers		Segment Assets		Acquisition of Segment Assets	
Geographical Segments	**2003 $'000**	**2002 $'000**	**2003 $'000**	**2002 $'000**	**2003 $'000**	**2002 $'000**
Australia	828	1,539	34,262	35,428	467	23,892
USA	17,248	16,275	2,813	3,341	17	1,399
Europe	4,001	3,584	-	-	-	-
Asia	2,828	4,849	-	-	-	-
Other	1,223	1,799	-	-	-	-
	26,128	28,046	37,075	38,769	484	25,291

The consolidated entity operates in four principal geographical areas – Australia, USA, Europe and Asia. The composition of each geographical segment is as follows:

- Australia – the consolidated entity manufacturers all its products in Australia and sells some products in Australia
- USA – the consolidated entity has a distribution office based in Minneapolis, USA and sells a range of its products in the USA.
- Europe – the consolidated entity sells a broad range of its products in Europe.
- Asia – the consolidated entity sells a broad range of its products in Asia.

36. Related Party Disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 34 to the financial statements.

(b) Directors' remuneration and retirement benefits

Details of directors' remuneration and retirement benefits are disclosed in note 4 to the financial statements.

(c) Directors equity holdings

	Consolidated 2003 No.	Consolidated 2002 No.	Company 2003 No.	Company 2002 No.
The following were issued by the company to directors and director related entities during the year:				
Fully paid ordinary shares	-	4,542,591	-	4,542,591
Ordinary options	50,000	5,583,516	50,000	5,583,516
Secondary options	-	730,083	-	730,083
The following options were converted to ordinary shares for directors and director related entities during the year:	-	730,083	-	730,083

	Consolidated 2003 No.	Consolidated 2002 No.	Company 2003 No.	Company 2002 No.
At 30 June directors and director related entities hold directly, indirectly, or beneficially the following equity interests in the company:				
Fully paid ordinary shares	3,694,072	4,222,674	3,694,072	4,222,674
Ordinary options	4,754,000	5,583,516	4,754,000	5,583,516
Secondary options	213,392	730,083	213,392	730,083

All ordinary shares and share options issued to the directors and director related entities during the financial year were made in accordance with a resolution passed at a general meeting of shareholders on the provisions of the directors and employee share option plan. Further details of the executive share option plan are contained in the directors' report and note 6 to the financial statements.

(d) Other transactions with director related entities

The company has purchased consulting services from SEQM Pty Ltd for $21,800. This company is controlled by a relative of the chairman. The consultancy is on normal commercial terms and conditions.

The company received rent from a tenant, Your Amigo Pty Ltd for $24,000. Mr V Previn is a Non Executive Director of Your Amigo Pty Ltd. The rental is on normal commercial terms and conditions.

The amount payable to directors per note 17 refers to salary and directors fees for Mr V Previn.

37. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Cash	1,059	939	-	699
Bank overdraft	-	(571)	-	-
	1,059	368	-	699

(b) Businesses acquired

During the prior financial year, one business was acquired. Details of the acquisition are as follows:

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Consideration				
Cash	-	26,152	-	-
	-	26,152	-	-

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Fair value of net assets acquired				
Current assets				
Cash	-	1,175	-	-
Receivables	-	2,027	-	-
Inventories	-	3,618	-	-
Non-current assets				
Property, plant and equipment	-	599	-	-
Other	-	380	-	-
Non-current liabilities				
Payables	-	(1,022)	-	-
Interest bearing liabilities	-	(169)	-	-
Provision for income tax	-	(1,776)	-	-
Provisions	-	(657)	-	-
Net assets acquired	-	4,175	-	-
Goodwill on acquisition	-	21,977	-	-
	-	26,152	-	-
Net cash outflow on acquisition				
Cash consideration	-	26,152	-	-
Less cash balances acquired	-	(1,175)	-	-
	-	24,977	-	-
(c) Financing facilities				
Secured loan and overdraft facilities with various maturity dates through to 2003 and which may be extended by mutual agreement:				
Amount used	2,000	2,571	-	-
Amount unused	4,000	1,429	-	-
	6,000	4,000	-	-
(d) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities				
Profit from ordinary activities after related income tax	1,632	3,281	1,727	276
(Profit)/loss on sale of non-current assets	19	43	9	26
Depreciation and amortisation of non-current assets	1,418	1,331	-	-
Increase/(decrease) in income tax payable	(1,055)	(931)	(34)	128
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	2,041	(3,866)	(70)	(3,354)
Current inventories	(1,054)	(3,946)	-	-
Other assets	129	180	9	349
Increase/(decrease) in liabilities:				
Current trade payables	(222)	2,647	(99)	(232)
Other liabilities	(179)	245	-	(25)
Net cash from operating activities	2,729	(1,016)	1,542	(2,832)

38. Financial Instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(b) Significant terms and conditions

Forward foreign exchange contracts

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to protect against potential adverse currency fluctuations, due to the sale and purchase of goods in foreign currencies. Specific hedging is used to mitigate these risks. The following table details the forward foreign currency contracts outstanding as at the reporting date:

	Average Exchange Rate		Principal Amount	
Outstanding Contracts	**2003 $**	**2002 $**	**2003 $'000**	**2002 $'000**
Sell US Dollars				
Less than 3 months	0.5931	0.5332	421	936
3 to 6 months	0.5871	0.5348	1,959	702
Longer than 6 months	0.5950	0.5348	2,101	1,170
	0.5910	0.5343	4,481	2,808

(c) Interest rate risk

The following table details the consolidated entity's exposure to interest rate risk as at the 30 June 2003; all other financial assets and liabilities are non-interest bearing:

			Fixed Interest Rate Maturity				
	Average Interest Rate	**Variable Interest Rate**	**Less than 1 Year**	**1 to 5 Years**	**More than 5 Years**	**Non-Interest Bearing**	**Total**
2003	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets							
Cash	0.9	995	-	-	-	64	1,059
		995	-	-	-	64	1,059
Financial Liabilities							
Bank overdraft							
Bank loans	6.8	-	-	2,000	-	-	2,000
Finance lease liabilities	7.2	-	73	87	-	-	160
		-	73	2,087	-	-	2,160

The following table details the consolidated entity's exposure to interest rate risk as at the 30 June 2002; all other financial assets and liabilities are non-interest bearing:

			Fixed Interest Rate Maturity				
	Average Interest Rate	**Variable Interest Rate**	**Less than 1 Year**	**1 to 5 Years**	**More than 5 Years**	**Non-Interest Bearing**	**Total**
2002	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets							
Cash	3.93	939	-	-	-	-	939
		939	-	-	-	-	939
Financial Liabilities							
Bank overdraft	8.45	571	-	-	-	-	571
Bank loans	6.8	-	-	2,000	-	-	2,000
Finance lease liabilities	6.8	-	53	185	-	-	238
		571	53	2,185	-	-	2,809

(d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(e) Net fair value

Except as detailed in the following table, the carrying amount of financial assets and liabilities recorded in the financial statement approximates their respective net fair values.

The net fair value of financial assets and financial liabilities are determined as follows:

- the net fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

The following tables detail the net fair value of financial assets:

	Carrying Amount		Net Fair Value	
Financial Assets	**2003 $'000**	**2002 $'000**	**2003 $'000**	**2002 $'000**
Not Readily Traded				
Foreign exchange contracts	427	-	427	100

Any unrealised gains or losses arising from hedges are deferred until the anticipated future transactions take place.

Shareholder Information as at 19 August 2003

(a) Number of Holders of Equity Securities

Ordinary Share Capital:

61,236,853 fully paid ordinary shares are held by 3,698 individual shareholders. All issued shares carry one vote per share.

Options:

11,564,398 options are held by 391 individual option holders and expire on 25 July 2004.

2,793,853 secondary options are held by 146 individual option holders and expire on 31 May 2004.

83,000 Employee options are held by 42 option holders and expire on 25 July 2004 or termination of employment, whichever occurs first.

698,835 Employee options are held by 40 option holders and expire on 25 November 2005 or termination of employment, whichever occurs first.

(b) Distribution of Holders of Equity Securities

i) Analysis of number of holders of equity securities by size of holding:

	Ordinary Shares	Options Expiry 25/07/04	Secondary Options	Employee Options
1 – 1,000	1,361	65	55	2
1,001 – 5,000	1,014	219	41	23
5,001 – 10,000	597	34	15	13
10,001 – 100,000	673	58	28	12
100,001 and over	53	15	7	-

ii) There were 1,386 holders of less than a marketable parcel of 1,191 ordinary shares.
iii) There were 297 holders of less than a marketable parcel of 7,143 secondary options expiring on 31 May 2004
iv) There were 130 holders of less than a marketable parcel of 50,000 options expiring on 25 July 2004.

(c) Twenty largest shareholders

Name	Number of Shares	Percentage of Class
RBC Global Services Australia Nominees Pty Ltd <RA A/c>	8,240,411	13.46
Citicorp Nominees Pty Limited	3,697,202	6.04
Sedico Pty Ltd	3,000,000	4.90
Sandhurst Trustees Ltd	2,408,552	3.93
Mr Guiseppe Canala Superannuation Fund	1,849,630	3.02
Unley Underwriters Pty Limited	1,107,424	1.81
National Nominees Pty Ltd	932,335	1.52
Argo Investments Limited	800,000	1.31
Taycol Nominees Pty Ltd	666,557	1.09
Davan Nominees Pty Ltd	648,072	1.06
Pine Street Pty Ltd	560,000	0.91
JP Morgan Nominees Australia Limited	471,621	0.77
Government Superannuation Office State Super Fund	432,206	0.71
Victor John Plummer	400,000	0.65
Dagress Pty Ltd	398,500	0.65
Mrs Susan Whiting	396,000	0.65
Victorian Workcover Authority	389,700	0.64
Big Blue One Investments Pty Ltd	350,000	0.57
Gemac Investments Pty Ltd	263,058	0.43
Symington Pty Ltd	260,390	0.43

(d) Substantial Shareholders

The Companies Register of substantial Shareholders records the following:

Name	Number of Ordinary Shares Held	Percentage of Shares Issues
Perpetual Trustees Australia Limited	5,898,968	9.63
Westpac Banking Corporation	3,395,664	5.55
Commonwealth Bank of Australia	3,789,842	6.20

(e) Twenty largest option holders for secondary options which are exercisable at $1.00 up to 31 May 2004

Name	Number of Options Held	Percentage of Options Issues
HFT Nominees Pty Ltd	509,691	18.24
Davan Nominees Pty Ltd	213,392	7.64
Mr Mark Lindh	200,000	7.16
Taycol Nominees Pty Ltd	179,029	6.41
Mr Michael Coombes	150,000	5.37
Nurragi Investments Pty Ltd	142,858	5.11
Mr Edwin Leech <Leech Family Trust>	123,215	4.41
Mambat Pty Ltd	80,000	2.86
Mr Brian Bentick, Mrs Teresita Bentick, Mr Peter Bentick <Bentick S/F A/C>	72,411	2.59
Mousetrap Nominees Pty Ltd	71,400	2.56
Foresight Pty Ltd	66,720	2.39
Outstanding Pty Ltd	60,000	2.15
Mr John Lawrence Conole & Mrs Christine Mary Conole	50,000	1.79
Copplemere Ltd	50,000	1.79
Roslyndale Nominees Pty Ltd	50,000	1.79
David Malcolm Pittman	50,000	1.79
Mr Michael Whiting, Mrs Tracey Whiting <Whiting Family Super A/c>	45,000	1.61
Kenneth Ronald Lewis	44,000	1.57
Mr Marcus La Vincent, Mrs Rosalie La Vincent	42,858	1.53
Mrs Teresite De Guzman Bentick, Dr Brian Bentick	40,000	1.43

(f) Twenty largest option holders for options which are exercisable at $0.50 up to 25 July 2004

Name	Number of Options Held	Percentage of Options Issues
Sedico Pty Ltd	3,500,000	30.27
Taycol Nominees Pty Ltd	2,057,182	17.79
Davan Nominees Pty Ltd	1,000,000	8.65
MHGD Pty Ltd	323,100	2.79
Mr Wensley John Carroll	243,668	2.11
Mrs Tracey Whiting	219,046	1.89
Davan Nominees Pty Ltd	200,000	1.73
Tower Trust Limited	185,000	1.60
Mr Marcus Charles Wilson	182,516	1.58
Push Button Pty Ltd	140,000	1.21
Mr James Clement Whiting	134,500	1.16
ANZ Nominees Ltd	125,000	1.08
Mr John Conole, Mrs Christine Conole	107,000	0.93
George Otvos	107,000	0.93
David Looker & Christine Turner	103,692	0.90
JDE Nomiees Pty Ltd	100,000	0.86
Symington Pty Ltd	100,000	0.86
Ashkirk Pty Ltd	90,000	0.78
Linkshore Pty Ltd	89,614	0.77
Michael Stewart	80,000	0.69

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