ANNUAL REPORT 2004

Ellexmedical

Corporate Directory

Directors

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

Company Secretary

Kevin P. McGuinness BAA ACA

Registered Office

Ellex Medical Lasers Limited
ABN 15 007 702 927
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Adelaide South Australia 5000
Telephone (08) 8104 5200
Facsimile (08) 8104 5210

Legal Advisors

Thomson Playford
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Adelaide South Australia 5000

Minter Ellison
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Adelaide South Australia 5000

Auditors

Deloitte Touche Tohmatsu
190 Flinders Street
Adelaide South Australia 5000

Share Registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

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Enquiries outside Australia: +61 3 9415 4000
Email: web.queries@computershare.com.au
Website: www.computershare.com.au

Websites

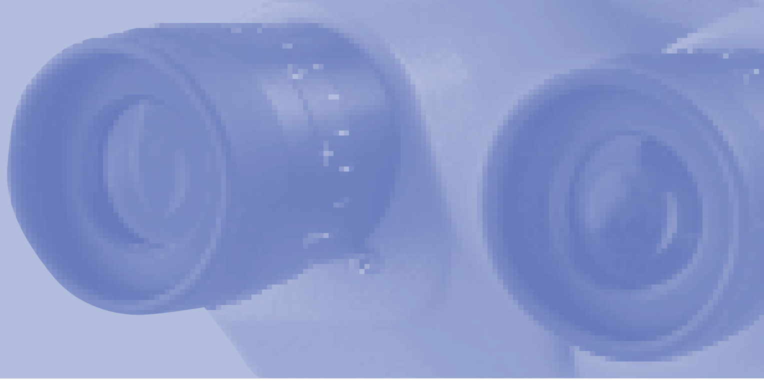
www.ellex.com
www.ellex.com.au
www.laserexsystems.com
www.laserexsystems.com.au

Stock Exchange

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

ASX Code

ELX – Ordinary Shares



Contents

2004 Highlights

Strategy Implementation

Commenced implementation of the strategy announced in July 2003 to accelerate the growth of our core ophthalmic laser business over the medium to long term. These strategies continue to be funded from Ellex's operating cashflow.

Japan

Established a Japanese subsidiary to control distribution of our products into the Japanese Market. As the second largest market in the world this represents a significant opportunity to grow revenue and profitability.

R&D Expansion

Expanded our product development capability with the establishment of an advanced R&D centre in California. Ellex secured the services of an experienced team of ophthalmic laser designers to compliment our Adelaide based capability.

R&D Grant

Secured a $3.3 million R&D Grant from the Australian Government business unit, AusIndustry, to assist in the development of a range of laser products for the treatment of retinal diseases.

NPAT

Generated NPAT pre-goodwill of $0.9 million after investing $3.0 million on key initiatives including those highlighted here. This was in line with the guidance given at the start of the year.

Positive Funds

Maintained a positive cash business after investment in growth initiatives with $0.8 million of positive funds at year end.

Chairman's Review

I present for your consideration the Company's Annual Report for the year ending 30 June 2004.

The year under review has seen the implementation of our five-year strategic plan, which we expect will result in a substantial increase in revenues and profit over that period.

The plan provides for significant investment in new products, and for the establishment of our own distribution companies in key markets in the first two years.

Both of these strategies were implemented during the year and we are pleased to welcome our U.S. Research and Development team, based in California, and our Japanese sales and distribution team, based in Osaka.

Both strategies are on track, and we hope to begin reaping the benefits around the end of this financial year, subject to product testing time periods.

The result of this long term investment has seen net profit affected substantially this year (as predicted), as the costs are fully written off.

In addition, revenues in Japan were affected as a result of establishing our own distribution, as our previous distributor cuts margins to meet our challenge. We do expect to turn this around this year, as our own team responds and new products come on stream.

Unfortunately, share market analysts do not appear to have the same confidence in our growth strategies as we have. Markets in Australia are far too driven by short term results, whereas in America, for example, the markets recognise long term investment strategies, particular those required of technology companies.

We thank our current shareholders for their patience whilst we invest our profits in future growth. Hopefully we are not too far away from a quantum leap in revenues and profitability.

Yours sincerely,

David J Lindh LLB, FTIA FAICD
Non-Executive Chairman

Managing Director's Review

Overview

The past financial year will prove to have been a very important year in the history of Ellex as it heralded a sea change in the company's business strategy. This year Ellex embarked on a path aimed at becoming the premier laser supplier to the ophthalmic industry within a five year period.

The medical markets of the world are growing, fuelled by the aging of the population and by improving standards of health care in third world nations. Over the last decade we have witnessed double-digit growth rates. Yet over the last two years there has been a change to the global scene, and the market for capital equipment has contracted significantly. The ophthalmic laser market contracted by 6% in 2003, having already contracted by 7% in 2002*.

We believe the contraction is due to two primary factors. Firstly, contracting global economies have resulted in a more cautious spending pattern by doctors. Secondly, the major ophthalmic retailers whose core businesses are outside ophthalmic lasers are concentrating on other more profitable segments.

Analysts* are forecasting a rebound in the ophthalmic laser market and estimate growth of 10% in 2004, with the expectation that US economic growth will be the key driver. By developing its own independent distribution network and increasing its product range, Ellex will be better able to take advantage of this rebound while the major players remain distracted from this market segment.

Transforming the Business

For the last decade, Ellex has grown by adherence to a business model that concentrated on engineering and manufacturing of high quality, cost-effective laser products. We formed distribution networks in the global market through partnerships with some of the most significant ophthalmic marketing companies. Business was conducted through annual contracts at a globally competitive "wholesale price" demanded of us by our distribution partners, who use their well-developed distribution chains to offer our product, badged with their company's brand. These third party "OEM contracts", as they are known in the industry, have served us and our partners well, as together we have grown.

The advantage of OEM contracts to a small manufacturer like Ellex is the ability to penetrate the market with minimal resources. The disadvantage is that our products are largely marketed under other people's brands, so our brand is not well established in all markets.

In 2004, we began transforming our business away from a reliance on OEM contracts to becoming a global marketing company, with marketing vertically integrated with research and development (R&D), engineering, and manufacturing. As indicated at the start of the year, this transition would provide Ellex with more control of its own destiny, rather than being dependent on the actions of its distribution partners, but this would require significant investment, and hence shareholders should expect a dampening of short-term profits for the sake of long-term growth.

Financial Results

The total revenues achieved for 2003–2004 were $26.6 million, 1.6% higher than the previous year. This was a very creditable result in the light of global trends and our company strategy.

The key financial outcomes achieved during the year have been:

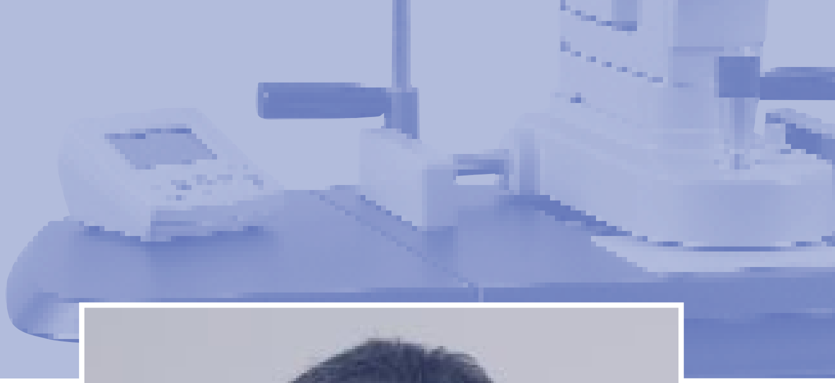
- NPAT was positive $0.9 million on a pre-goodwill basis (a loss of $0.2 million after amortization of goodwill)
- a cash position of $0.75 million at the end of the year, with our only debt being a term facility on our freehold building in Adelaide, Australia

This result was achieved after investing $3.0 million (fully expensed) on two ambitious initiatives, which were:

- establishing a direct sales and distribution subsidiary in Japan with a staff of ten by the end of the year, including six sales people
- expanding our product development capacity by establishing an advanced R&D centre based in Silicon Valley, California

Our strategy to sell our product directly in Japan this year required us to sacrifice some short-term revenues from our previous third party distribution arrangements. The resultant revenues from this market were down by $1.5 million on the previous year, but we expect revenue growth from this initiative to follow within the next two years.

**Spectrum Consulting, January 2004*



Exchange rate movements over the past year have placed pressures on revenue and margins. Fortunately, we started the year with a strong hedge position through forward exchange contracts and realised $0.6 million in gains from these contracts to offset some of the impact.

We secured an R&D Start Grant, which is a competitive grant provided by the Australian Government to assist Australian companies in the development of new technology. This will provide a total of $3.3 million to be spent over three financial years and will fund a key R&D initiative.

Critical Initiatives

Ellex's core strength for the last decade has been its efficient product development capability and high quality manufacturing capability. Twelve months ago the Board and Management developed a five-year strategic plan, the core emphasis of which was to drive revenue and profit growth by strengthening our sales and distribution channels and developing a more complete product range across those ophthalmic laser segments in which we are focused. To this end, we have started a number of critical initiatives in addition to those described above:

- reviewing all our distribution arrangements around the world to ensure we have the best quality distributors in each region
- strengthening our sales and distribution team to facilitate closer working relationships with our distributors, and to improve sales performance
- establishing a direct sales and distribution subsidiary in Japan
- appointing a Manager based in France to focus on our European and Middle East markets
- pursuing opportunities to add complementary ophthalmic product lines from other manufacturers, to increase revenues and disburse operating costs, particularly for our Japanese subsidiary

We secured key Japanese regulatory approvals in March and since then have put in place the infrastructure to grow this business over the next year. Sales to date have been limited due to the timing of regulatory approvals and the traditional long demonstration cycle in Japan.

Our product development program is on track, and our objective is to have a complete product range in the ophthalmic laser segments in which we are focused (secondary cataract, retinal and glaucoma) by 2006. This is an ambitious plan, which will be assisted by the establishment of an R&D facility in the US.

The $3.3 million R&D Start Grant from the Australian Government will fund a part of this program over three years: the development of new range of Photocoagulator products. The grant covers the period October 2003 to December 2005.

Looking to Future

We have released a new range of SLT lasers for treatment of glaucoma, and we are currently one of only two companies in the world to offer this technology. The Tango (offering a dual SLT and cataract treatment) and the Solo (SLT only) supplement the product offered under an OEM arrangement with Lumenis. The global glaucoma market is significant, with over A$4 billion spent annually on drug therapies. We believe these products will generate substantial revenues in the future.

The next twelve months will be an exciting and challenging year for us, during which we expect to see the first signs of success of our strategies.

I would like to thank my fellow directors, management and staff for their support and continued hard work in building the Ellex business.

Victor Previn BE
Managing Director

Profiles

DIRECTORS

David Lindh, Non-Executive Chairman

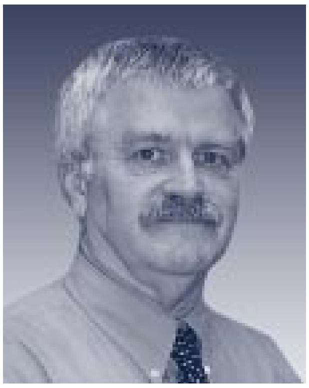
David Lindh is a solicitor, consultant and company Director with over 30 years experience. He is chairman and a Director of a number of public and private companies, as well as government and non-profit organisations. Mr Lindh is a consultant with Minter Ellison Lawyers and advises in the area of corporations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

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 Cutera Inc. Prior to this, he was the Senior Director of the Ophthalmic Business unit of Coherent (now Lumenis) – a US$450 million revenue medical laser company listed on the Nasdaq where in 1997 - a downturn year in the world ophthalmic industry - he implemented a turn around strategy which resulted in 150% growth in the subsequent three years. Peter is also a member of the Ellex Medical Advisory Board.



Bob Johnson, Non-Executive Director

Bob Johnson is an Adelaide-based businessman with wide interests in mining and technology. He operates 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 also 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 ASX listed company Nautilus, an ASX listed company with turnover 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			Ellex Medical Pty Ltd*		
	2004	**2003**	**2002**	**2001**	**2000**	**1999**
Operating revenue	24,665	25,950	27,354	21,661	17,939	10,355
Total cost of goods sold	(15,295)	(14,633)	(13,894)	(11,671)	(10,769)	(5,566)
Total other expenses	(9,943)	(7,645)	(7,973)	(5,713)	(4,163)	(4,106)
Total other revenue	1,880	160	622	1,289	333	(27)
EBITDA	1,307	3,832	6,109	5,566	3,340	656
Deprecation and amortisation	(1,548)	(1,418)	(1,331)	(180)	(151)	(141)
EBIT	(241)	2,414	4,778	5,386	3,189	515
Interest income/(expense)	(135)	(198)	(60)	169	(74)	(49)
Net profit before tax	(376)	2,216	4,718	5,555	3,115	466
Tax (expense)/benefit	170	(584)	(1,437)	(2,100)	(1,111)	(69)
Net profit after tax	(206)	1,632	3,281	3,455	2,004	397
Outside equity interest	-	-	(166)	(204)	(179)	(46)
Net profit after tax minorities	(206)	1,632	3,115	3,251	1,825	351
Net Profit after tax before goodwill amortisation	**899**	**2,737**	**4,168**	**3,251**	**1,825**	**351**

** Previously Taracan Pty Ltd*

Financial Report for the year ended 30 June 2004

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 2004 and the auditor's report thereon.

Corporate Governance Statement

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 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 16 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 35 to the financial statements.

Nomination Committee

The Board of Directors acts as the Nomination Committee and 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 any advice received by the Director is made available to all other members of the Board.

Remuneration Committee

The Board of Directors acts as the Remuneration Committee and reviews remuneration packages and policies applicable to the Managing Director, senior executives and Directors themselves. The Board evaluates the performance of the Managing Director and monitors management succession planning. The Board 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 functions 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 K R Johnson (Chairman of Audit Committee)
Mr D Kerr – (Resigned 4 August 2003) - Independent Consultant
Mr D Lindh – 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 four times 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 the transition to the Australian equivalents to International Financial Reporting Standards for reporting periods beginning on or after 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.
- 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 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 –The Managing Director and Chief Financial Officer ensure compliance with financial controls and procedures including information systems controls detailed in procedures manuals
- 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, and the 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 37 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 that 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 reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and is 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 2004

The Directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2004. 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 – Non-Executive)

David Lindh is 59 years old and was reappointed as a Director at the annual general meeting held 27 October 2003, 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 46 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 41 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 57 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.

(b) Principal Activities

The consolidated entity's principal activities have been the development, manufacture and distribution of medical laser equipment for application in ophthalmic procedures.

(c) Review and Results of Operations

The consolidated loss for the year after income tax was $206,000 compared to a profit of $1.632 million for 2002/2003.

The consolidated net profit pre goodwill amortisation for the year after income tax was $899,000 compared to $2.737 million for 2002/2003.

As previously advised, Ellex has focussed over the past twelve months on establishing a platform for growth. The Directors have previously stated this would curb short term profits with a view to driving growth in the medium to longer term. Approximately $3 million has been invested on two key initiatives.

- Expanding Research & Development capability through a new US based Research & Development centre. Ellex secured a talented team with over ten years experience in the ophthalmic laser market. This team brings complimentary skills to our Research & Development facility in Australia and will enable us to accelerate product development over the next two years.
- Establishing direct distribution and sales in Japan. Japan is the second largest ophthalmic laser market in the world behind the US. Ellex now has direct presence in these two significant markets through wholly owned subsidiaries.

Ellex expects these two strategies to deliver substantial growth in revenue and profits over the next two to three years.

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

(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	Nil	Nil	N/A	N/A
	Note			
Dealt with in this financial report as:				
- Dividends	28			

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 25 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 25 November 2003, under the rules of the Directors and Employees Share Option Scheme, the Directors' approved the issue of 868,667 options for management and employees exercisable at $0.50 by 30 November 2006. These options expire upon termination of employment. Options issued to Directors and executives were as follows:

	Number of Options Granted	Issuing Entity	Number of Ordinary Shares under Option
Directors			
K R Johnson	50,000	Ellex Medical Lasers Limited	50,000
P Falzon	100,000	Ellex Medical Lasers Limited	100,000
Executives			
Kevin McGuinness	100,000	Ellex Medical Lasers Limited	100,000
Mike Fullgrabe	50,000	Ellex Medical Lasers Limited	50,000
Athy Kalatzis	66,667	Ellex Medical Lasers Limited	66,667
Bill Swaim	50,000	Ellex Medical Lasers Limited	50,000
Jerzy Orkiszewski	30,000	Ellex Medical Lasers Limited	30,000

(g) Subsequent Events

Apart from the other matters discussed elsewhere in this Annual Report, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2004 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

There are no legal matters with any potential material impact on the financial report.

(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	12	12	4	4
V Previn	12	12		
P Falzon	10	12		
K R Johnson	11	12	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	2,000	648,072	-
V Previn	-	-	3,164,034	-
P Falzon	-	150,000	-	-
K R Johnson	-	50,000	40,000	-

(l) *Directors' & Executives' 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 5 to the financial statements.

		Salary/ Fees	Consultancy Fees	Benefits	Incentive Schemes	Total
DJ Lindh	Non Executive Director	60,000	40,000	5,400	-	105,400
V Previn	Managing Director	237,550	-	39,051	-	276,601
P Falzon	Non Executive Director	34,515	-	-	3,000	37,515
KR Johnson	Non Executive Director	50,000	-	-	1,500	51,500
Total		**382,065**	**40,000**	**44,451**	**4,500**	**471,016**

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

		Salary/ Fees	Consultancy Fees	Benefits	Incentive Schemes	Total
V Previn	Managing Director	237,550	-	39,051	-	276,601
B Swaim	President – Laserex Inc – US	232,851	-	58,958	1,500	293,309
J Orkiszewski	President – Resdev Labs Inc – US	214,169	-	17,125	900	232,194
Y Isoda	President – Amphi Medical Corp – Japan	197,641	91,524	4,798	-	293,963
K McGuinness	Chief Financial Officer	123,728	-	32,659	3,000	159,387
Total		**1,005,939**	**91,524**	**152,591**	**5,400**	**1,255,454**

(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

Adelaide, 26 August 2004

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 2004 as set out in pages 21 to 45. 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 2004 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

Stephen Harvey
Partner
Chartered Accountants

Adelaide, 26 August 2004

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

The Directors declare that:

(a) The attached financial statements and notes comply with Accounting Standards;

(b) The attached financial statements and notes thereto 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 thereto 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
Adelaide, 26 August 2004

Statement of Financial Performance for the year ended 30 June 2004

		Consolidated		Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Revenue from ordinary activities		26,558	26,128	903	1,540
Raw materials and consumables used		(13,839)	(13,429)	-	-
Changes in labour and overhead		23	406	-	-
Employee benefits expense		(8,256)	(6,791)	-	-
Legal fees		(50)	(105)	-	-
Depreciation and amortisation expense		(1,548)	(1,418)	-	-
Advertising and marketing expenses		(531)	(407)	-	-
Borrowing costs		(148)	(216)	-	-
Insurance costs		(360)	(261)	-	-
Other expenses from ordinary activities		(2,225)	(1,691)	(646)	(8)
(Loss)/profit from ordinary activities before income tax (expense)/benefit	2	(376)	2,216	257	1,532
Income tax (expense)/benefit relating to ordinary activities	3	170	(584)	64	195
(Loss)/profit from ordinary activities after related income tax (expense)/benefit		(206)	1,632	321	1,727
Increase/(decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations	26	94	(388)	-	-
Total changes in equity other than those resulting from transactions with owners as owners		(112)	1,244	321	1,727
Earnings per share					
- Basic (cents per share)	29	(0.3)	2.7		
- Diluted (cents per share)	29	(0.3)	2.7		

Notes to the Financial Statements are included on pages 25 to 45

Statement of Financial Position for the year ended 30 June 2004

		Consolidated		Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current assets					
Cash assets		756	1,059	-	-
Receivables	8	3,297	3,626	4,529	4,263
Inventories	9	9,398	8,013	-	-
Current tax assets	18	-	75	-	2
Other current assets	10	222	122	-	-
Total current assets		13,673	12,895	4,529	4,265
Non-current assets					
Other financial assets	11	-	-	24,231	24,099
Property, plant and equipment	12	4,611	3,684	-	-
Intangibles	13	18,875	19,956	-	-
Deferred tax assets	14	1,155	540	17	92
Total non-current assets		24,641	24,180	24,248	24,191
Total assets		38,314	37,075	28,777	28,456
Current liabilities					
Payables	16	4,376	3,165	-	-
Interest-bearing liabilities	17	92	73	-	-
Current tax liabilities	18	396	-	-	-
Provisions	19	677	606	-	-
Other	20	4	448	-	-
Total current liabilities		5,545	4,292	-	-
Non-current liabilities					
Interest-bearing liabilities	21	2,145	2,087	-	-
Provisions	22	146	106	-	-
Total non-current liabilities		2,291	2,193	-	-
Total liabilities		7,836	6,485	-	-
Net assets		30,478	30,590	28,777	28,456
Equity					
Contributed equity	25	27,985	27,985	27,984	27,984
Reserves	26	2,699	2,605	472	472
Retained profits/(accumulated losses)	27	(206)	-	321	-
Total equity		30,478	30,590	28,777	28,456

Notes to the Financial Statements are included on pages 25 to 45

Statement of Cash Flows for the year ended 30 June 2004

	Note	Consolidated Inflows (Outflows)		Company Inflows (Outflows)	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
Cash flows from operating activities					
Receipts from customers		26,673	28,400	-	-
Payments to suppliers and employees		(25,367)	(23,922)	-	2
Interest and bill discounts received		13	18	-	9
Interest and other costs of finance paid		(148)	(216)	-	-
Dividends received		-	-	-	1,531
Income tax refunds received		255	121	-	-
Income tax paid		(222)	(1,672)	-	-
Net cash from operating activities	36(c)	1,204	2,729	-	1,542
Cash flows from investing activities					
Payment for purchase of intangibles		(33)	-	-	-
Payment for property, plant and equipment		(1,218)	(484)	-	-
Proceeds from sale of property, plant and equipment		3	47	-	-
Net cash used in investing activities		(1,248)	(437)	-	
Cash flows from financing activities					
Proceeds from issues of equity securities		-	73	-	70
Payment for share issue costs		-	(3)	-	-
Repayment of borrowings		(181)	(1,400)	-	(780)
Proceeds from borrowings		-	1,423	-	-
Dividends paid		-	(1,531)	-	(1,531)
Repayment of leases		(80)	(128)	-	-
Net cash used in financing activities		(261)	(1,566)	-	(2,241)
Net increase/(decrease) in cash held		(305)	726	-	(699)
Cash at the beginning of the financial year		1,059	368	-	699
Effects of exchange rate changes on the balance of cash held in foreign currencies		2	(35)	-	-
Cash at the end of the financial year	36(a)	756	1,059	-	-

Notes to the Financial Statements are included on pages 25 to 45

Notes to the Financial Statements for the year ended 30 June 2004

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 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 - 8 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 37 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 as designated; or
- Recognised in net profit or loss at the date of termination, if the anticipated transaction is no longer expected to occur as designated.

(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.

Financial statements of integrated foreign controlled entities are translated at reporting date using the temporal method and exchange differences are included in the statement of financial performance.

(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 results 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 33 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 unrealised 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 unamortised 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 unamortised 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.

Non-refundable Government Grants received have been recognised as revenue in net profit or loss.

2. Profit/(Loss) from Ordinary Activities

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

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
(a) Operating revenue				
Sales revenue:				
Sale of goods	24,665	25,950	-	-
Interest revenue:				
Other entities	13	18	-	9
Dividends received:				
Wholly owned controlled entities	-	-	-	1,531
Foreign exchange gain	639	-	-	-
Research & Development Start Grant income	1,009	-	-	-
Other	229	113	903	-
	26,555	26,081	903	1,540
(b) Non Operating revenue				
Proceeds from sale of assets (note 7)				
Property, plant and equipment	3	47	-	-
	3	47	-	-
	26,558	26,128	903	1,540
(c) Expenses				
Cost of sales	15,295	14,633	-	-
Borrowing costs				
Interest:				
Finance leases	10	21	-	-
Other entities	138	195	-	-
	148	216	-	-
Net bad and doubtful debts – other entities	80	-	-	-
Depreciation of non-current assets:				
Property, plant and equipment	434	305	-	-
Amortisation of non-current assets:				
Goodwill	1,105	1,105	-	-
Other intangibles	9	8	-	-
	1,114	1,113	-	-
Total depreciation and amortisation of non-current assets	1,548	1,418	-	-
Plant & equipment:				
WDV of plant and equipment disposed of	3	58	-	-
Current assets:				
WDV of mining lease bonds disposed of	-	8	-	8
Research and development costs written off	3,746	1,833	-	-
Net transfers to provisions:				
Warranty	95	(4)	-	-
Net foreign exchange loss	-	106	-	-
Legal fees	50	105	-	-
Provision for employee entitlements	34	52	-	-
Operating lease minimum lease payments	274	53		
Superannuation contributions	414	404	-	-

3. Income Tax

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

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
(Loss)/Profit from ordinary activities	(376)	2,216	257	1,532
Income tax expense/(benefit) calculated at 30% of operating profit/(loss)	(113)	665	77	460
Permanent differences:				
Amortisation of intangible assets	334	334	-	-
Effect of higher tax rates of tax on overseas income	(155)	(49)	-	-
Deductible equity raising costs	(94)	(94)	(94)	(94)
Research & development tax concession	(56)	(111)	-	-
Other permanent differences	(18)	22	-	(458)
	11	102	(94)	(552)
Over provision of income tax in previous year	(68)	(183)	(47)	(103)
	(57)	(81)	(141)	(655)
Income tax expense/(benefit) attributable to ordinary activities	(170)	584	(64)	(195)

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. The company and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and the Directors of these entities consider it likely that they will elect to implement the tax consolidation system in due course.

However, at the date of this report the Directors have not yet finalised an assessment of the financial effect that implementation may have on the company and the consolidated entity. Accordingly, the Directors have not made a final formal decision whether or not to implement the tax consolidation system, and if so, from which date implementation would occur.

As a result, only the financial effects of the mandatory aspects of the enabling legislation has been recognised in the financial statements and no adjustment has been made to recognise the financial effects that may result from the implementation of the tax consolidation system.

In the event that the tax consolidation system is implemented, the company is likely to become the 'head entity' of the tax-consolidated group, and is likely to agree to compensate each wholly-owned subsidiary for the carrying amount of its deferred tax balances.

4. Directors' and Executives' Remuneration

The specified Directors of Ellex Medical Lasers Limited during the year were:
D J Lindh (Chairman, non-executive)
V K Previn (Managing Director)
K R Johnson (Non-executive)
P Falzon (Non-executive)

The specified executives of Ellex Medical Lasers Limited during the year were:
K McGuinness (Chief Financial Officer)
M Fullgrabe (General Manager – retired 30 May 2004)
A Kalatzis (Business Development Manager)
B Swaim (President – Laserex Systems Inc, US)
J Orkiszewski (President – ResDev Labs Inc, US)
Y Isoda (President – Amphi Medical Corp, Japan)

	Primary			Post Employment					
2004	Salary & Fees $	Bonus $	Non-Monetary $	Super-annuation $	Prescribed Benefits $	Other $	Equity Options $	Other Benefits $	Total $
Specified Directors									
D J Lindh	60,000	-	-	5,400	-	-	-	40,000	105,400
V K Previn	237,550	-	18,126	20,925	-	-	-	-	276,601
K R Johnson	50,000	-	-	-	-	-	1,500	-	51,500
P Falzon	34,515	-	-	-	-	-	3,000	-	37,515
	382,065	**-**	**18,126**	**26,325**	**-**	**-**	**4,500**	**40,000**	**471,016**

2004	Primary: Salary & Fees $	Primary: Bonus $	Primary: Non-Monetary $	Post Employment: Super-annuation $	Post Employment: Prescribed Benefits $	Post Employment: Other $	Equity Options $	Other Benefits $	Total $
Specified Executives									
K McGuinness	123,728	-	20,124	12,535	-	-	3,000	-	159,387
M Fullgrabe	127,271	-	-	12,542	-	12,083	-	-	151,896
A Kalatzis	120,091	-	6,152	11,149	-	-	2,000	-	139,392
B Swaim	210,493	22,358	26,144	32,814	-	-	1,500	-	293,309
J Orkizsewski	214,169	-	10,660	6,465	-	-	900	-	232,194
Y Isoda	197,641	-	-	4,798	-	-	-	91,524	293,963
	993,393	**22,358**	**63,080**	**80,303**	**-**	**12,083**	**7,400**	**91,524**	**1,270,141**

Further details of the options issued are contained in notes 5 and 35 to the financial statements.

Contracts for Services

D J Lindh acts as a consultant to the consolidated entity in providing corporate, strategic and legal services in addition to services provided as a Director, and receives a retainer of $40,000 per annum for these services (included above in 'Other benefits').

5. Employee 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	2004 No.	2003 No.
Balance at beginning of financial year (i)	781,835	126,000
Granted during the financial year (ii)	868,667	739,835
Exercised during the financial year (iii)	-	(19,000)
Lapsed during the financial year (iv)	(185,167)	(65,000)
Balance at end of the financial year (v)	1,465,335	781,835

(i) Balance at the beginning of Financial Year

2003 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
(2) Issued 15 January 2003	698,835	26/11/02	25/11/05	$0.50
Total	**781,835**			

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 2004 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

2004 Options – Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price	Fair Value Received
(3) Issued 15 January 2004	868,667	01/12/03	30/11/06	$0.50	Nil

2003 Options – Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price	Fair Value Received
(3) Issued 15 January 2003	739,835	26/11/02	25/11/05	$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 2004 vest at their day of issue.

(iii) Exercised during the Financial Year

2004 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
Nil	Nil					Nil		

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	2004 No.	2003 No.
Series (1) Issued 25 March 2002	14,000	24,000
Series (2) Issued 15 January 2003	106,167	41,000
Series (3) Issued 15 January 2004	65,000	-
Total	185,167	65,000

Options (1), (2) and (3) 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

2004 Options – Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(1) Issued 25 March 2002	69,000	01/03/02	25/07/04	$0.50
(2) Issued 15 January 2003	592,668	26/11/02	25/11/05	$0.50
(3) Issued 15 January 2004	803,667	01/12/03	30/11/06	$0.50
Total	1,465,335			

2003 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
(2) Issued 15 January 2003	698,835	26/11/02	25/11/05	$0.50
Total	781,835			

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, 2003 and 2004 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 note 4 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 (2003: $Nil) was recognised in contributed equity arising from the exercise of employee and executive options.

	Consolidated		Company	
	2004	**2003**	**2004**	**2003**
6. Remuneration of Auditors				
Auditor of the parent entity				
Auditing the financial report	59,000	51,000	10,000	-
Other services	-	-	-	-
	59,000	51,000	10,000	-

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
7. 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	-	8
Property, plant and equipment	-	13	-	1
	-	21	-	9
Net profits				
Property, plant and equipment	-	2	-	-
8. Current Receivables				
Trade receivables	2,940	3,227	-	-
Allowance for doubtful debts	(105)	(105)	-	-
	2,835	3,122	-	-
Goods and services tax (GST) recoverable	77	36	-	-
Sundry deposits recoverable	266	4	-	-
Other receivables	11	19	-	-
Deposit for sale of Mining assets	-	18	-	-
Foreign currency hedge receivable	108	427	-	-
Receivable from controlled entity	-	-	4,529	4,263
	3,297	3,626	4,529	4,263
9. Current Inventories				
Raw materials – at net realisable value	359	203	-	-
Raw materials – at cost	2,972	3,228	-	-
WIP – at net realisable value	99	86	-	-
WIP – at cost	1,779	1,499	-	-
Finished goods – at net realisable value	230	162	-	-
Finished goods – at cost	3,959	2,835	-	-
	9,398	8,013	-	-
10. Other Current Assets				
Prepayments	222	122		- -
11. Other Non-Current Financial Assets				
At cost				
Investment in controlled entity	-	-	24,231	24,099

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12. 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 2003	740	1,912	1,975	80	4,707
Additions	-	29	1,189	139	1,357
Net foreign currency exchange differences arising on the translation of financial statements of foreign operations	-	-	10	-	10
Disposals	-	-	(6)	-	(6)
Balance at 30 June 2004	740	1,941	3,168	219	6,068
Accumulated depreciation/amortisation					
Balance at 30 June 2003	-	(85)	(897)	(41)	(1,023)
Depreciation expense	-	(48)	(373)	(13)	(434)
Net foreign currency exchange differences arising on the translation of financial statements of foreign operations	-	-	(3)	-	(3)
Disposals	-	-	3	-	3
Balance at 30 June 2004	-	(133)	(1,270)	(54)	(1,457)
Net book value					
As at 30 June 2003	740	1,827	1,078	39	3,684
As at 30 June 2004	740	1,808	1,898	165	4,611

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

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Buildings	48	48	-	-
Plant and equipment	373	245	-	-
Equipment under finance lease	13	12	-	-
	434	305	-	-

13. Intangibles

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Goodwill	22,108	22,108	-	-
Accumulated amortisation	(3,264)	(2,159)	-	-
	18,844	19,949	-	-
Patents, trademarks and licenses	88	65	-	-
Accumulated amortisation	(67)	(58)	-	-
	21	7	-	-
Organisational costs	10	-	-	-
Accumulated amortisation	-	-	-	-
	10	-	-	-
	18,875	19,956	-	-
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	1,105	-	-
Patents, trademarks and licenses	9	8	-	-
Organisational costs	-	-	-	-
	1,114	1,113	-	-

Assumptions made in respect of recoverable amount

In determining recoverable amount the expected future cashflows associated with the business, for the remaining seventeen years over which it is to be amortised, have been calculated based on current and future forecasts, and have not been discounted to present value.

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
14. Deferred Tax Assets				
Future income tax benefit				
Tax losses - revenue	576	-	-	-
Timing differences	579	540	17	92
	1,155	540	17	92
Future income tax benefit has been reduced by the provision for deferred income tax attributable to timing differences by the amount of:	11	5	-	-
15. Assets Pledged As Security				
All assets of the consolidated entity have been pledged as security for liabilities, as disclosed in notes 17 and 21 to the financial statements.				
16. Current Payables				
Trade payables	3,119	2,072	-	-
Accruals	853	603	-	-
Payable to Directors	211	179	-	-
Other payables	193	311	-	-
	4,376	3,165	-	-
17. Current Interest Bearing Liabilities				
Secured:				
Finance advance	37	30	-	-
Finance lease liabilities (note 32)	55	43	-	-
	92	73		- -
The secured interest bearing liabilities are secured by the assets under finance.				
18. Current Tax Assets/Liabilities				
Income tax payable	396	-	-	-
Income tax refundable	-	75	-	2
19. Current Provisions				
Employee entitlements (note 23)	503	472	-	-
Warranty (note 24)	174	134	-	-
	677	606	-	-
20. Other Current Liabilities				
Unearned income	4	21	-	-
Deferred gain on foreign currency contracts	-	427	-	-
	4	448	-	-
21. Non-Current Interest-Bearing Liabilities				
Secured:				
Commercial bill for purchase of Land and Buildings	2,000	2,000	-	-
Finance lease liabilities (note 32)	145	87	-	-
	2,145	2,087	-	-

The Commercial Bill is secured by the land and buildings under finance. The facility rolls every 30 days, and is due to expire in September 2010.

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	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
22. Non-Current Provisions				
Employee entitlement (note 23)	146	106	-	-
23. Employee Entitlements				
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:				
Current (note 19)	503	472	-	-
Non-current (note 22)	146	106	-	-
Accrued wages and salaries[(i)]	151	157	-	-
	800	735	-	-
Number of employees at end of financial year	137	106	-	-
24. Provisions				
Warranty				
Balance at beginning of year	134	184	-	-
Additional provisions recognised	182	145	-	-
Payments made	(55)	(46)	-	-
Reductions resulting from the re-measurement of the estimate future sacrifice	(87)	(149)	-	-
Balance at end of year	174	134	-	-

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.

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
25. Contributed Equity				
Contributed equity				
61,236,853 fully paid ordinary shares (2003: 61,236,853)	27,985	27,985	27,984	27,984

	Consolidated			
	2004		2003	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary share capital				
Balance at beginning of financial year	61,237	27,985	61,091	32,280
Shares issued during the year:				
Shares issued at $0.50	-	-	146	73
Transfer from Retained Losses[(ii)]	-	-	-	(4,366)
Costs of share issues	-	-	-	(2)
Balance at end of financial year	61,237	27,985	61,237	27,985

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 16 to the financial report.

(ii) During the prior 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 cancelling 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 (2003: 11,564,398) options exercisable at $0.50 each and expiring 25 July 2004 were on issue and were not exercised at the end of the year.

Nil (2003: 2,793,853) The secondary options exercisable at $1.00 each lapsed at their expiry date of 31 May 2004 and were no longer on hand at the end of the year.

69,000 (2003: 83,000) 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.

592,668 (2003: 698,835) 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.

803,667 (2003: Nil) unquoted employee options exercisable at $0.50 each and expiring 30 November 2006 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 5 to the financial statements.

26. Reserves

		Consolidated		Company	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
(a)	**Reserves comprise**				
	Foreign currency translation	(517)	(611)	-	-
	General profit reserve	3,216	3,216	472	472
		2,699	2,605	472	472
(b)	**Movements in reserves**				
	General profit reserve				
	Balance at beginning of financial year	3,216	3,115	472	-
	Transfer from retained profits	-	1,632	-	2,003
	Dividend paid	-	(1,531)	-	(1,531)
	Balance	3,216	3,216	472	472
	Foreign currency translation reserve				
	Balance at beginning of financial year	(611)	(223)	-	-
	Translation of foreign operations	94	(388)	-	-
	Balance	(517)	(611)	-	-
Balance of reserves at end of financial year		2,699	2,605	472	472

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).

27. Retained profits/(accumulated losses)

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Balance at beginning of financial year	-	(4,366)	-	(4,090)
Transfer to share capital	-	4,366	-	4,366
Net profit/(loss)	(206)	1,632	321	1,727
Transfer to general profit reserve	-	(1,632)	-	(2,003)
Balance at end of financial year	(206)	-	321	-

28. Dividends

	2004		2003	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	2.5	1,531

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Adjusted franking account balance (tax paid basis)	2,629	2,294	24	25

	Consolidated	
	2004 Cents per share	2003 Cents per share

29. Earnings Per Share

	2004 Cents per share	2003 Cents per share
Basic earnings per share	(0.3)	2.7
Diluted earnings per share	(0.3)	2.7

	2004 $'000	2003 $'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	(206)	1,632

	2004 No.	2003 No.
Weighted average number of ordinary shares	61,236,853	61,199,771

	2004 $'000	2003 $'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	(206)	1,632

	2004 No.	2003 No.
Weighted average number of ordinary shares and potential ordinary shares	61,236,853	61,199,771

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:

	2004 No. '000	2003 No. '000
Ordinary Options	11,564	11,564
Secondary Options	-	2,794
Unquoted Employee Options	1,465	782

30. Commitments for Expenditure

(a) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 32 to the financial statements.

31. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition $'000
Controlled entities				
ResDev Labs Inc	Research & Development	6 August 2003	100%	-
Amphi Medical Corporation	Distribution	12 September 2003	100%	132

This acquisition of businesses note relates to the incorporation of new wholly-owned subsidiaries of the consolidated group. The cost of acquisition comprises payment for share capital. The share capital for ResDev Labs Inc was less than $1,000.

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
32. 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	68	51	-	-
Later than 1 year and not later than 5 years	159	94	-	-
Minimum finance lease payments	227	145	-	-
Less future finance charges	(27)	(15)	-	-
Finance lease liabilities	200	130	-	-
Included in the financial statements as:				
Current interest bearing liabilities (note 17)	55	43	-	-
Non-current interest bearing liabilities (note 21)	145	87	-	-
	200	130	-	-
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	371	43	-	-
Longer than 1 year and not longer than 5 years	212	-	-	-
Longer than 5 years	-	-	-	-
	583	43	-	-

33. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest 2004 %	Ownership Interest 2003 %
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
ResDev Labs Inc	USA	100	-
Amphi Medical Corporation	Japan	100	-

34. Segment Information

The primary segment of the consolidated group is the business of 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:

Geographical Segments	Revenue from External Customers 2004 $'000	Revenue from External Customers 2003 $'000	Segment Assets 2004 $'000	Segment Assets 2003 $'000	Acquisition of Segment Assets 2004 $'000	Acquisition of Segment Assets 2003 $'000
Australia*	3,190	828	31,717	34,262	698	467
USA	17,471	17,248	4,085	2,813	473	17
Europe	4,086	4,275	-	-	-	-
Japan	704	2,095	2,512	-	186	-
Asia	851	1,231	-	-	-	-
Other	256	451	-	-	-	-
	26,558	26,128	38,314	37,075	1,357	484

*Revenue for Australia in 2004 includes a Research & Development Grant of $1,009,000, for which there was no revenue in 2003.

The consolidated entity operates in five principal geographical areas – Australia, USA, Europe, Japan 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 and the Middle East.
- Japan – during the year, the consolidated entity established a distribution office based in Osaka, Japan and sells a range of its products in Japan.
- Asia – the consolidated entity sells a broad range of its products in Asia.

35. Related Party Disclosures

(a) Equity interests in related parties
Details of the percentage of ordinary shares held in controlled entities are disclosed in note 33 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) Specified Directors' and specified executives' equity holdings

Fully paid ordinary shares issued by Ellex Medical Lasers Limited

	Balance at 1/7/03 No.	Granted as remuneration No.	Rec'd on exercise of options No.	Net other change No.	Balance at 30/6/04 No.	Balance held nominally No.
Specified Directors						
D J Lindh	654,072	-	-	-	654,072	648,072
V K Previn	3,000,000	-	-	164,034	3,164,034	3,164,034
K R Johnson	40,000	-	-	-	40,000	40,000
P Falzon	-	-	-	-	-	-
Specified Executives						
K McGuinness	60,000	-	-	-	60,000	-
M Fullgrabe	-	-	-	-	-	-
A Kalatzis	-	-	-	-	-	-
B Swaim	-	-	-	-	-	-
J Orkizsewski	-	-	-	-	-	-
Y Isoda	-	-	-	-	-	-

Share Options issued by Ellex Medical Lasers Limited

	Balance at 1/7/03 No.	Granted as remuneration No.	Rec'd on exercise of options No.	Net other change No.	Balance at 30/6/04 No.	Balance held nominally No.
Specified Directors						
D J Lindh	1,417,392	-	-	(215,392)	1,202,000	1,200,000
V K Previn	3,500,000	-	-	-	3,500,000	3,500,000
K R Johnson	-	50,000	-	-	50,000	-
P Falzon	50,000	100,000	-	-	150,000	-
Specified Executives						
K McGuinness	50,000	100,000	-	-	150,000	-
M Fullgrabe	-	50,000	-	(50,000)	-	-
A Kalatzis	66,667	66,667	-	-	133,334	-
B Swaim	-	50,000	-	-	50,000	-
J Orkizsewski	-	30,000	-	-	30,000	-
Y Isoda	-	-	-	-	-	-

All share options issued to the Directors during the financial year were made in accordance with the provision of the employee share option plan.

Each share option converts into one ordinary share of Ellex Medical Lasers Limited on exercise. No amounts are paid or payable by the recipient on granting of the option.

All options issued during the year were issued on 15 January 2004. The fair value of the options issued on 15 January 2004 was $0.03

Further details of the options granted during the year are contained in note 5 to the financial statements.

(d) Transactions within the wholly-owned group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group
- wholly-owned controlled entities
- other entities in the wholly-owned group.

The ultimate parent entity of the wholly-owned group is Ellex Medical Lasers Limited.

Details of dividend and interest revenue derived by the entity from entities in the wholly-owned group are disclosed in note 2 to the financial statements.

Details of interest expense, allowances for doubtful receivables and write-downs of receivables in respect of transactions with entities in the wholly-owned group are disclosed in note 2 to the financial statements.

Amounts receivable from entities in the wholly-owned group are disclosed in note 8 to the financial statements.

During the financial year, Ellex Medical Pty Ltd provided accounting and administration services, at various costs, to entities in the wholly-owned group.

(e) Other transactions with Director related entities

The company has purchased consulting services from SEQM Pty Ltd for $21,500 (2003: $21,800). A Director of this company is a relative of the chairman. From July 2003 to February 2004, the consultancy was based on an hourly rate charged for Investor Relations activities each month, which is in accordance with normal commercial terms and conditions. From March to June 2004, the consultancy became a monthly retainer for Investor Relations activities, in accordance with normal commercial terms and conditions.

The company received rent from a tenant, Your Amigo Pty Ltd for $19,500 (2003: $24,000). Mr V Previn is a Non Executive Director of Your Amigo Pty Ltd. For the period July to December 2003, this rental was $2,000 per month, based on normal commercial terms. For the period January to May 2004, this rental decreased to $1,500 per month, as the size of the tenants premises was decreased. The tenants ceased renting the premises in May 2004, based on condition of the rental agreement that the tenants would vacate given a specified notice period.

The amount payable to Directors per note 16 refers to salary and Directors fees for Mr V Previn.

36. Notes to the Statement of Cash Flows

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
(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:				
Cash	756	1,059	-	-
	756	1,059	-	-
(b) Financing facilities				
Secured loan and overdraft facilities with various maturity dates through to 2005 and which may be extended by mutual agreement:				
Amount used	2,000	2,000	-	-
Amount unused	7,000	4,000	-	-
	9,000	6,000	-	-
(c) Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities				
Profit/(loss) from ordinary activities after related income tax	(206)	1,632	321	1,727
(Profit)/loss on sale of non-current assets	-	19	-	9
Depreciation and amortisation of non-current assets	1,548	1,418	-	-
Increase/(decrease) in income tax payable	(145)	(1,055)	77	(34)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	329	2,041	(398)	(70)
Current inventories	(1,385)	(1,054)	-	-
Other assets	(100)	129	-	9
Increase/(decrease) in liabilities:				
Current trade payables	1,496	(222)	-	(99)
Other liabilities	(333)	(179)	-	-
Net cash from operating activities	1,204	2,729	-	1,542

(d) Non cash financing and investing activities

During the financial year, the consolidated entity purchased property, plant and equipment at a cost of $139,000 under finance lease arrangements, and financed insurance of $188,000. These amounts are not reflected in the statement of cash flows.

37. 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. The following table details the forward foreign currency contracts outstanding as at the reporting date:

Outstanding Contracts	Average Exchange Rate 2004	Average Exchange Rate 2003	Principal Amount 2004 $'000	Principal Amount 2003 $'000
Sell US Dollars				
Less than 3 months	0.5870	0.5931	596	421
3 to 6 months	0.5790	0.5871	432	1,959
Longer than 6 months	0.6890	0.5950	583	2,101
	0.6210	0.5910	1,611	4,481

Collar Options

Using collar options, the consolidated entity takes up options to protect against potential adverse currency fluctuations, due to the sale and purchase of goods in foreign currencies. The following table details the collar options outstanding as at the reporting date:

	2004		2003		Principal Amount	
Outstanding Options	**Put Average Strike Rate**	**Call Average Strike Rate**	**Put Average Strike Rate**	**Call Average Strike Rate**	**2004 $'000**	**2003 $'000**
Sell US Dollars						
Not longer than 1 year	0.772	0.6952	-	-	719	-
Longer than 1 year	-	-	-	-	-	-
Sell Japanese Yen						
Not longer than 1 year	0.80	0.6806	-	-	882	-
Longer than 1 year	-	-	-	-	-	-
					1,601	**-**

(c) Interest rate risk

The following table details the consolidated entity's exposure to interest rate risk as at the 30 June 2004; all other financial assets and liabilities are non-interest bearing:

			|– Fixed Interest Rate Maturity –|				
2004	**Average Interest Rate %**	**Variable Interest Rate $'000**	**Less than 1 Year $'000**	**1 to 5 Years $'000**	**More than 5 Years $'000**	**Non-Interest Bearing $'000**	**Total $'000**
Financial Assets							
Cash	1.4%	756	-	-	-	-	756
		756	-	-	-	-	756
Financial Liabilities							
Bank loans	6.8%	-	-	2,000	-	-	2,000
Finance lease liabilities	6.2%	-	92	145	-	-	237
		-	92	2,145	-	-	2,237

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 –|				
2004	**Average Interest Rate %**	**Variable Interest Rate $'000**	**Less than 1 Year $'000**	**1 to 5 Years $'000**	**More than 5 Years $'000**	**Non-Interest Bearing $'000**	**Total $'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

(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 allowances 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	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Not Readily Traded				
Foreign exchange contracts	108	427	77	427

38. Impact of adopting the Australian equivalents to International Financial Reporting Standards

Management of the transition to A-IFRSs

In accordance with the Financial Reporting Council's strategic directive, the consolidated entity will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRSs") for annual reporting periods beginning on or after 1 January 2005. Accordingly, the consolidated entity's first half-year report prepared under A-IFRSs will be for the half-year reporting period ended 31 December 2005, and its first annual financial report prepared under A-IFRSs will be for the year ended 30 June 2006.

At the date of this report, the Directors of the consolidated entity have established a project team which has performed a high-level assessment of the impact of A-IFRSs on the consolidated entity, and determined how they will manage the transition to A-IFRSs and carry out the transition work. The Directors and project team are monitoring the developments in A-IFRSs and the potential impact it will have on the company to be A-IFRS compliant shortly.

While no formal decision has yet been made as to the policy alternatives to be applied or the extent of which it will affect the company, the Directors of Ellex Medical Lasers Ltd have identified the following as being the key accounting policy differences expected to arise on the transition to A-IFRSs.

Income tax

The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which gives rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the carrying amounts and the tax bases of assets and liabilities recognised in the balance sheet.

Adjustments to the recognised amounts of deferred taxes will be also result as a consequence of adjustments to carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not been currently determined.

Impairment of assets

Non-current assets are written down to recoverable amount when an asset's carrying amount exceeds its recoverable amount. Historically, Ellex Medical Lasers Ltd has not used discounted cash flows in determining recoverable amount. A-IFRS prescribes a more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Non-current assets, besides goodwill and indefinite life intangible assets, will continue to be depreciated, and are only subject to the impairment test if an indication of impairment exists.

Under the transitional rules of A-IFRS, the consolidated entity has the option to use fair value as the deemed cost of fixed assets. The likely impact of using fair value has not been currently determined.

Amortisation of goodwill

Goodwill is currently amortised over a 20-year period. A-IFRS does not permit goodwill to be amortised, but instead requires the carrying amount to be tested for impairment at least annually. Goodwill currently recognised in the balance sheet, adjusted if necessary on the optional restatement of business combinations, must be allocated to individual cash generating units (or groups of cash generating units) and tested for impairment at the allocated level. This change in accounting policy may result in increased volatility in the income statement, as impairment losses are expected to occur infrequently.

Off-balance sheet financial assets and liabilities

A-IFRS requires the recognition of all financial assets and financial liabilities, including derivatives and embedded derivatives, which is not presently required under current Australian GAAP. On initial assessment of this requirement, the consolidated entity does not believe that there are any financial assets and financial liabilities that are currently not recognised on the balance sheet that would require recognition under A-IFRS.

Hedge accounting

The consolidated entity enters into forward exchange contracts for its purchases in order to hedge its exposure to fluctuations in exchange rates. Under A-IFRS, hedges are designated as fair value hedges or cash flow hedges, and the accounting differs depending on the designation. Where a hedge is designated as a fair value hedge, changes in the fair value of the hedged item and hedging instrument are recognised in profit or loss to the extent hedged, however, changes in the fair value of the hedging instruments classified as cash flow hedges are recognised in equity, and are recycled to the income statement when the hedged transaction affects the profit or loss.

The designation, documentation and effectiveness requirements under A-IFRS may result in some hedges no longer qualifying for hedge accounting. On transition, the consolidated entity also has the option of designating financial instruments currently considered hedges as financial assets and liabilities that are recognised at fair value through the profit and loss. It is not possible to determine the impact of the change in hedging requirements until a full analysis of the impact of the different options available to the entity (including no longer accounting for hedging instruments under hedge accounting) has been finalised.

Proceeds from sale of assets

The current definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of grossing up the statement of financial performance. Under A-IFRS, such proceeds on sale will no longer meet the definition of revenue and accordingly will be excluded from revenue. However, the net gain or loss from the sale will continue to be recognised as part of the income statement as 'income'. Consequently, there is no impact on net profit from this change in accounting policy.

Government grants

Presently, non-reciprocal grants received are recognised as revenue when the consolidated entity obtains control of the grant, regardless of the specific purpose to which the grant is required to be expended or the periods over which the grant applies. A liability to repay the grant is only recognised where a present obligation exists to repay grant monies. A-IFRS requires grants received to be recognised as income on a systematic basis over the periods necessary to match them with related costs, which they are intended to compensate, but only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. As this treatment is currently used, there will be no change in accounting policy.

Foreign currency translation

The current requirements for translation of foreign subsidiaries differentiates between self-sustaining and integrated foreign subsidiaries, with the foreign currency differences for integrated foreign subsidiaries being included in the profit and loss. However, under A-IFRS, there is no differentiation between these two types of subsidiaries, and all foreign currency differences are included in equity. The impact of the change on the financial statements will increase the volatility in the income statement.

Valuation of options

Under A-IFRS, options issued by the company each year must be valued and expensed in the profit and loss over the vesting period of the options. The impact of the change on the financial statements cannot yet be quantified, but will reduce reported profits and increase equity.

Business combinations

Under A-IFRS, the purchase method of accounting must be applied where there is a business combination, however, not all acquisitions will qualify as a business combination, and as such the purchase method of accounting for these acquisitions will no longer be appropriate.

Furthermore, there are a number of recognition and measurement differences that result in relation to assets and liabilities acquired in a business combination, particularly in relation to intangible assets and restructuring provisions. The impact of these changes in accounting policy on first-time adoption will depend on whether the consolidated entity will elect to adopt the exemption available to it to not reopen past acquisitions and retrospectively account for them.

Shareholder Information as at 6 September 2004

(a) Number of Holders of Equity Securities

Ordinary Share Capital:

61,236,853 fully paid ordinary shares are held by 4,032 individual shareholders. All issued shares carry one vote per share.

Options:

592,668 Employee options are held by 30 option holders and expire on 25 November 2005 or termination of employment, whichever occurs first.

838,667 Employee options are held by 54 option holders and expire on 30 November 2006 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	Employee Options
1 – 1,000	1,321	1
1,001 – 5,000	1,038	15
5,001 – 10,000	746	16
10,001 – 100,000	868	17
100,001 and over	59	6

ii) There were 1,457 holders of less than a marketable parcel of 1,786 ordinary shares.

(c) Twenty largest shareholders

Name	Number of Shares	% of Class
Citicorp Nominees Pty Limited <CFS Developing Companies A/C>	3,437,339	5.61
Sedico Pty Ltd	3,164,034	5.17
Sandhurst Trustees Ltd <Aust Ethical Equities A/C>	2,371,908	3.87
Mr Giuseppe Canala + Mrs Mira Canala <Giuseppe Canala S/F A/C	1,849,630	3.02
Pine Street Pty Ltd <Pine Street A/C>	1,400,000	2.29
Unley Underwriters Pty Limited	1,107,424	1.81
Ms Choi Chu Lee	853,000	1.39
Gwynvill Trading Pty Ltd	800,000	1.31
Davan Nominees Pty Ltd	648,072	1.06
Permanent Trustee Australia Limited <PVA0002 A/C>	500,000	0.82
Mr Rahmon Charles Coupe + Mrs Julia Deborah Coupe <Coupe Super Fund A/C>	495,138	0.81
Taycol Nominees Pty Ltd	453,142	0.74
Dagres Pty Ltd <Dagres Discretionary A/C>	428,500	0.70
Mr Victor John Plummer	400,000	0.65
Mrs Susan Whiting	396,000	0.65
Big Blue One Investments Pty Ltd	390,000	0.64
Westpac Custodian Nominees Limited	371,694	0.61
Berne No 132 Nominees Pty Ltd <323731 A/C>	350,000	0.57
Ms Lai See Lisa Lau	300,000	0.49
Mr John Lawrence Conole + Mrs Christine Mary Conole	270,000	0.44

(d) Substantial Shareholders

The Companies Register of substantial Shareholders records the following:

Name	Number of Ordinary Shares Held	Percentage of Shares Issues
Colonial First State	3,437,339	5.61
Sedico Pty Ltd	3,164,034	5.17

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