

ELLEX MEDICAL LASERS LIMITED

**Annual Report 2016**







From newborn to our twilight years, we are stimulated and amazed by what we see.





Vision creates moments and emotions. The simple act of gazing into the eyes of our children creates an overwhelming sense of being loved, while giving us a desire to be loving in return.

Every sight we see is a moment captured, some archived to the banal recesses of memories past; others so compelling that they are as vivid as the moment they burst into our field of vision.

Vision gives us the ability to learn and be discerning; to control risk and make informed decisions based on what we see around us.

As we age, our eyesight fades, and our sense of confidence and connection with the world can so easily fade with it.

**This is why our team at Ellex are dedicated to creating technology that can improve patients' quality of life, and maintain their vision for a lifetime.**

From the day-to-day to the truly magnificent, vision gives life meaning and texture.

## 2016 Highlights

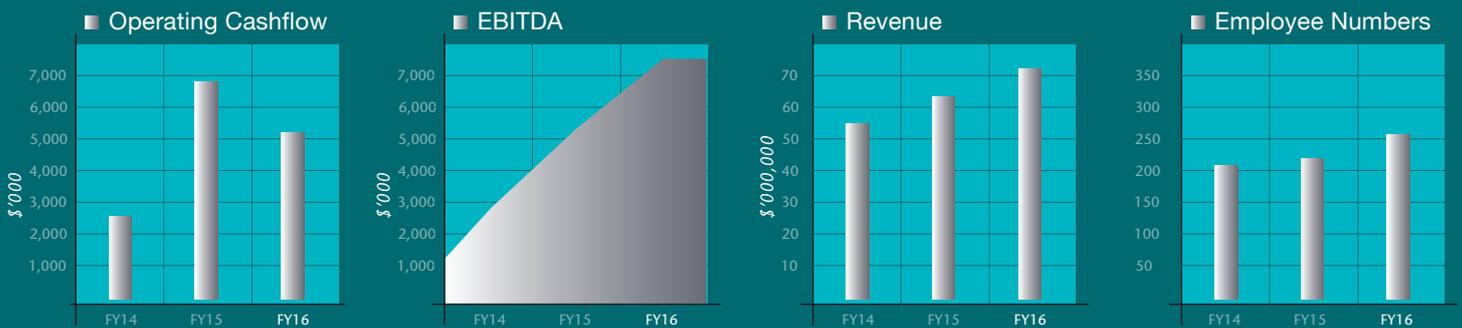
**\$73m**  
Revenue

**\$7.9m**  
EBITDA

**\$5.2m**  
Operational cashflow

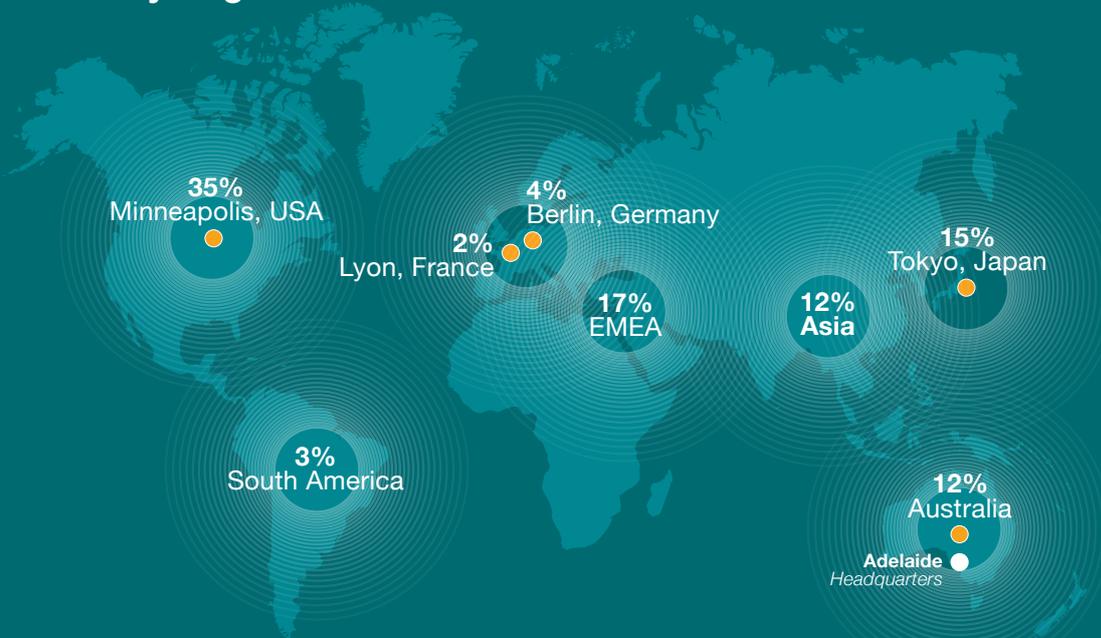
**\$4.2m**  
NPBT

## Performance





## Global Sales by Region



- *Headquarters*
- *Sales and Service*

## Harnessing the healing power of laser technology

As we age, the deterioration of vision due to age related eye disease is almost as inevitable as aging itself, but it doesn't need to be. Around 99% of all age related vision loss is due to either Glaucoma, Diabetic Eye Disease, Secondary Cataracts and Vitreous Opacities, or Age-related Macular Degeneration.

Until the introduction of ophthalmic lasers, the ability to treat eye disease depended on surgical intervention and pharmaceuticals; or was simply limited to offering patients symptomatic relief with the unlikely prospect of a cure.

For over 30 years, Ellex has been at the forefront of ophthalmic laser research and development, combining the engineering might of the defence industry, with the medical insight of major universities to create ophthalmic remedies once never thought possible.

As pioneers in the industry, we continue to discover new and innovative ways to harness the healing power of laser technology, and in turn, help to transform the lives of people across the globe.

Innovation and new product development is a constantly evolving process. Much of our success as innovators is due to our constant engagement with the ophthalmic industry.

To create a structure for this process, we established a Medical Advisory Board, which includes practicing Ophthalmologists who meet with us on a quarterly basis to articulate their specific treatment needs, their experience as users of our existing products, and to provide input into new ideas.

Today, we are as passionate about ophthalmic laser technology, and its power to heal, as the day we set out on this magnificent journey.

Transforming the inevitability of age related sight loss, into vision for life.

### Revenue In Key Market Segments: 2015 – 2016 Fys

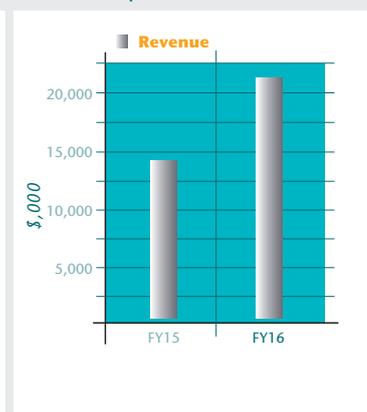
Glaucoma ABiC™ with iTrack



Glaucoma Laser (SLT)



Secondary Cataract & Vitreous Opacities Lasers

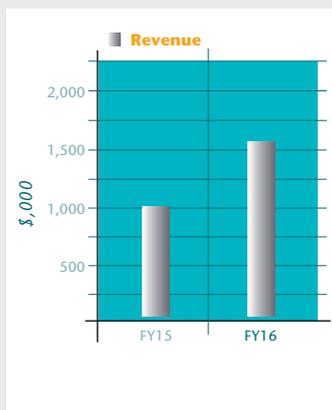




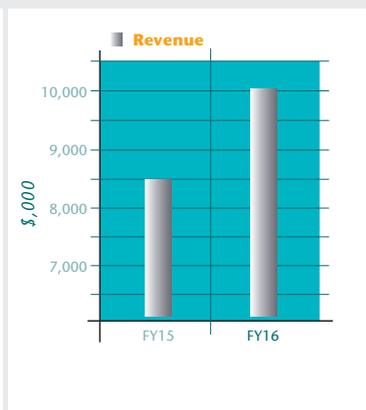
Retinal Disease  
(Diabetic) Laser



Macular  
Degeneration Laser



Diagnostic Ultrasound



## Helping the world to see clearly

Every 5 seconds, someone in the world will lose the ability to see.

According to the World Health Organization, there are currently 40 million people around the globe who are blind, with more than half in China, India and sub-Saharan Africa.

Right across the planet, an aging population, and the increasing rate of chronic health conditions due to excessive calorie intake and increasingly sedentary lifestyles, are boosting the rate of vision loss at an exponential rate.

People over 60 are in the highest risk category for age related eye disease. They are also the fastest growing population segment with the United Nations projecting over 60's to number 1.4 billion by 2030.

The need for vision protecting and eye-care technologies has never been greater, a challenge we have met head-on with our game changing ophthalmic technologies.

The Ellex brand is recognised and trusted around the globe with 88% of all revenue generated through international sales.



Vision for all; restoring sight across the globe.

### Key Market Segments

#### Glaucoma



#### Secondary Cataracts and Vitreous Opacities





Our constant engagement with ophthalmic professionals, and the resultant innovation that stems from this process, has seen the Ellex brand rise to become a dominant player in the global ophthalmic market.

Ellex has created a unique product class which is recognised for its ergonomic design, tough durability to withstand the busiest hospital or clinical environment, ease of maintenance, and world leading technology.

For Ellex, the scale of all our markets ensure sustainable, long-term growth well into the future.

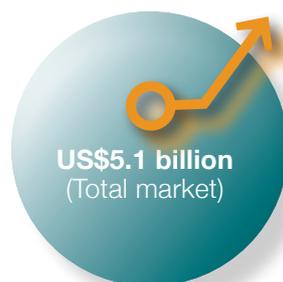
Throughout financial year 2017, we will continue to grow our existing markets with a significant strategic push throughout Latin America and into the Asian market, with a strong focus on China.

There is already significant demand for ophthalmic procedures throughout China as living standards continue to rise. As the evolving healthcare system progressively matures towards the standards of western nations, it is thought that the demand for ophthalmic services in China will far exceed any market in the world.

#### Diabetic Eye Disease



#### Age-Related Macular Degeneration



## Innovation in action

### ABiC™ for Glaucoma

Glaucoma affects more than 80 million people worldwide. At Ellex, we have been developing the ABiC™ Microinvasive Glaucoma Surgery (MIGS) procedure, which uses micro-catheter technology to flush the eye's natural outflow channels, relieving pressure in the eye, while eliminating the need for stents or shunts.

The minimally invasive procedure doesn't damage the eye tissue in any way, and is fast and easy for physicians to perform. From the patient's perspective, there is the primary benefit of preserving eyesight, especially if the procedure is conducted in the early stages of the disease.

It can help to avoid conventional surgical procedures, and may even eliminate the need for a regimen of eye drops which are known for their unwanted side effects.

A recent 12-month study has shown very promising results. On average, ABiC™ achieves a reduction in mean intraocular pressure (IOP) of 30%, combined with a 50% reduction in medication burden.

Delivering on its promise of safety and efficacy, ABiC™ may well prove to be the preferred choice for millions of sufferers around the world.





### **2RT® for Age-Related Macular Degeneration (AMD)**

Age-Related Macular Degeneration (AMD) affects one in seven Australians over the age of 50, and is said to create an economic burden on the Australian economy of over AU\$2.6 Billion annually.

Currently, patients that are diagnosed with early AMD are told nothing can be done until the disease is well advanced, by which time they are likely to have suffered irreversible vision loss. Treatment for late-stage AMD requires monthly injections directly in the eye, and the recommendation of a vitamin formulation, with neither addressing the cause of the disease.

The Ellex 2RT® procedure offers an entirely different approach. Not only does it provide the opportunity to intervene at an early stage in the disease, it actually initiates healing by therapeutically using laser technology to stimulate the natural process of cellular rejuvenation.

The clinical validation process for 2RT® is ongoing and continues to look very promising. We have also begun a limited commercial roll-out in key Australian and European markets utilising our existing distribution channels.

Based on results to date, 2RT® is demonstrating that it has the potential to be the world's first interventional treatment for early AMD.

More than laser surgery:  
a life-changing solution.

## Operations: where innovation meets craftsmanship

### A new era - a new location

The 2017 financial year symbolises the beginning of an exciting new chapter for Ellex as we move our entire operation into the recently acquired 5000m<sup>2</sup> complex at Mawson Lakes. Located approximately 20 minutes from the Adelaide CBD, the new facility gives us the scale to easily double our current production capacity.

The new site also provides us with the opportunity to design an optimal workflow for the new 700m<sup>2</sup> production area, making it possible to achieve significant efficiencies from day one.

Each workstation is specifically designed for manufacturing our patented diagnostic and treatment technologies, including our proprietary laser cavities in a laser-safe environment.

The Mawson Lakes' complex will also house a state-of-the-art engineering and product development facility, supporting our ongoing commitment to research and innovation.



The quest for perfection;  
because vision is precious.



### Precision to the core

In the world of ophthalmic lasers, there is absolutely no room for compromise. The eye is so incredibly sensitive and vulnerable to injury that there are no second chances. Our technology is designed and manufactured to perform flawlessly in every procedure throughout the life of the equipment.

Achieving the pinnacle of manufacturing precision begins with the solid foundation of a beautifully engineered design. With a pedigree in defence technology, we have been able to create an engineering brains trust that is the envy of many, and achieved by few.

### A focus on quality

Our operational system is equally critical in controlling the quality performance of every process and procedure in a consistent and replicable manner, time-after-time. The documented, managed and reviewed system has been formalised through third party certification to the international Quality Management Standard ISO:13485. To retain the certification, we are regularly audited by external auditors to assess system compliance with the standard.

We are also committed to Continuous Improvement, a strategy that is driven by very specific operational performance objectives that are always centred around the customer experience, and ultimately, their satisfaction with the performance of our products.

### Our people

The heart of our operation is undoubtedly our people. Every member of our team is an artisan in their own right, hand manufacturing incredibly complex equipment with the precision of a surgeon. Not only is our team highly skilled, but they have an unrivalled passion, which is consistently reflected in the quality of their workmanship.

The heart of our operation is  
undoubtedly our people.



Dedicated to creating technology  
that helps patients improve and  
maintain their vision for a lifetime.

## Chairman's letter

Dear Shareholder,

The 2016 financial year was a year of progress and accomplishment for Ellex on many fronts. For the fourth consecutive year, it is pleasing to report improved financial performance along with solid growth.

Sales of \$72.9 million were the highest in the Company's history and represented a rise of 16% on revenues for the 2015 financial year. Operating profit before tax was \$4.2 million, up from \$2.6 million in the prior comparable period.

The key drivers of sales revenue growth and improved profitability were:

- Organic growth in sales of high-margin products, particularly in China and Japan.
- Positive impact of the lower Australian dollar against the US\$, Euro and Yen.
- A pleasing return to profitability of our Japan business: improved sales management and the approval of new products by Japan's regulatory authority resulted in a significant turnaround result after a challenging year in 2015.
- The discontinuation of contract manufacturing and lower margin third-party product sales, combined with a reduction in other third-party product sales reduced revenue but improved profit margin.

A key tenet of our growth strategy is the development of devices that treat eye diseases hitherto left untreated, treated ineffectively by pharmaceuticals or treated with invasive surgery. Two such products are currently generating particularly good growth:

- Ultra Q Reflex™ laser for treatment of post-cataract opacities and vitreous floaters, and;
- iTrack™ microcatheter for minimally invasive glaucoma surgery (MIGS).

Sales of the innovative Ultra Q Reflex™ laser were strong in all territories, with physicians consistently reporting patients who are very happy with post-treatment results. We are expecting sales of this product to continue to grow.

The sales growth achieved year on year in the USA for our proprietary iTrack™ microcatheter was a creditable 29%. This is a world-leading device for the fast growing MIGS market. Investment commenced during 2016 to enhance our US sales team to facilitate sales growth, with more investment planned in this area over the current financial year.

The 2016 financial year was a  
year of progress and  
accomplishment for Ellex.

## Chairman's letter

The Ellex 2RT® program for the treatment of early stage, age-related macular degeneration (AMD) continued during 2016. Long-term clinical trial results are expected in 2018, but in the meantime sales are growing as physicians learn of this innovative nano-pulse based laser light therapy that has the potential to stave off late-stage debilitating macular degeneration.

Finally, Ellex is planning to continue this growth and production expansion. The purchase and newly planned fit out of a new manufacturing facility in the northern suburbs of Adelaide, Australia, is testimony to this.

As we did in 2016, we believe we can deliver increasing shareholder value in 2017.



V Previn  
Chairman  
Adelaide, 26 August 2016

The organic growth in sales of high-margin products in China and Japan, combined with improved sales performance of the Ultra Q Reflex™ laser and the iTrack™ microcatheter, delivered a positive operating result.



## **Corporate Governance**

## Corporate Governance

The company has adopted and substantially complies with ASX Corporate Governance and Principles and Recommendations, *3<sup>rd</sup> Edition ASX Corporate Governance Council*.

The Corporate Governance Statement which was approved by Board of Directors on 27 July, 2016 is available for viewing on our website [www.ellex.com](http://www.ellex.com)



## Directors' Report

## Directors' Report

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:



**Victor Previn, Chairman**

Victor Previn is 58 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor Previn is a professional engineer and one of the original founders of Ellex. His career spans more than 30 years in the laser industry. Mr Previn was responsible for developing and commercializing the technology platform that is now the core of Ellex's current production. He has spent more than 28 years in the ophthalmic laser industry travelling widely throughout Asia, Europe and the USA in a business development capacity.

Mr Previn held the position of Managing Director from 2003 to 2005. In July of 2005, Mr Previn was elected Chairman of the Ellex board of directors. He is also a member of the Audit & Risk Committee and the Remuneration Committee.

Mr Previn beneficially holds shares of 9,316,031 as at 24 August, 2016.



**Alex Sundich**

Alex Sundich is 52 years old and was appointed a non-executive director on 22 July 2005. Alex is currently a director of Bridge Street Capital Partners, a corporate advisory and principal investment firm. From 2002 to 2008, Alex was a senior executive in the funds management industry. Prior to this, he was an investment banker with Goldman Sachs and CSFB, involved in mergers and acquisitions and capital raisings. Alex is currently the Chairman of Petrel Energy Limited and an Executive Director of Burleson Energy Limited. He is currently a member of the Audit & Risk Committee.

Mr Sundich beneficially holds shares of 6,300,000 as at 24 August, 2016.



**Giuseppe Canala**

Giuseppe Canala is 69 years old and was appointed an Independent Director on 17 October 2008. Giuseppe is an experienced company director with a range of laser-related companies. He has a professional engineering and economics background. As an original co-founder of Ellex, he has served the Company in a broad range of management roles, including Director of Engineering, Operations Manager, Managing Director and Company Secretary. He was the Chairman from 1990 to 2001. He is currently a member of the Audit & Risk Committee and Remuneration Committee.

Mr Canala beneficially holds shares of 3,061,788 as at 24 August, 2016.



### **Rahmon Coupe**

Rahmon Coupe is 53 years old and was appointed an Independent Director on 15 May 2013. Mr Coupe is Chief Executive Officer and Director of YourAmigo Limited, an organic search engine solutions company. Mr Coupe has more than 27 years' experience in the areas of corporate management, intellectual property management, contract negotiation, business development and engineering and has worked across a diverse range of industries, including information technology and the internet, life sciences and public broadcasting. Mr Coupe has held various project and engineering management roles for government research-based organisations, including the Defence Science and Technology Organisation (DSTO).

Mr Coupe holds an Honours Degree in Electrical and Electronic Engineering from the University of Adelaide and was awarded the Ernst & Young Entrepreneur of the Year in Technology and Emerging Industries for the Central Region of Australia in 2009.

Mr Coupe beneficially holds shares of 989,000 as at 24 August, 2016.



### **Meera Verma**

Meera Verma is 58 years old and was appointed an Independent Director on 15 May 2013. Dr Verma is a professional executive with expertise spanning the global healthcare, product development and biotechnology delivery industries. She is the principal of Headland Vision, a strategic product development advisory and consultancy company, and previously served as Site Director for the Adelaide-based R&D and manufacturing facility of Hospira Inc, a global speciality pharmaceutical and medication company, now part of Pfizer. Dr Verma is a Fellow of both the Australian Academy of Technological Sciences and Engineering (ATSE) and the Australian Institute of Company Directors.

Dr Verma holds a Doctoral Degree in Biochemistry from the University of Adelaide and is a Non- Executive Director of Biosensis Pty Ltd and (not-for-profit) Trees for Life. She is currently a member of the Remuneration Committee.

Dr Verma beneficially holds shares of 49,000 as at 24 August, 2016.



**Tom Spurling**  
Group Chief Executive Officer

Tom Spurling is 54 years old and was appointed Group Chief Executive Officer in March 2011. Mr Spurling has nearly 30 years of senior management experience across the defence, mining and manufacturing sectors, both domestically and internationally. He was formerly Managing Director and General Manager of Tenix LADS Corporation, technology originally licensed by Tenix from the Australian Department of Defence.

Mr Spurling holds a Bachelor's degree in Economics from the University of Adelaide and is a Chartered Accountant.



**Maria Maieli**  
CFO & Company Secretary

Maria Maieli is 48 years old and was appointed Company Secretary on 1 January 2013. Ms. Maieli joined Ellex as Chief Financial Officer in May 2011. She has over 25 years of senior financial management experience in public and private companies, specialising in international tax and reporting, and corporate compliance and governance. Ms Maieli was formerly Finance Manager of Penrice Soda Holdings Limited, an ASX-listed company that owns and operates the largest marble and limestone mine in Australia.

Ms Maieli holds a Master's degree in Professional Accounting from the Southern Cross University and is a Certified Practising Accountant (CPA). She is also a member of the Governance Institute of Australia after completing her Applied Diploma in Corporate Governance.

## Directors' Report

### Principal activities

During the year, the principal activities of entities within the Group were:

- Global leader in design and manufacture of lasers and ultrasound systems
- Distribution and service of medical devices to ophthalmologists to diagnose and treat eye disease
- Manufacture and distribution of iTrack glaucoma surgical devices.

There have been no significant changes in the nature of these activities during the year.

### Review of operations

An operating profit before tax of \$4.2m was achieved for the year ended 30 June 2016. This is another material improvement in operating result following on from a solid performance in 2015.

The strong operating result was driven by an increase in sales of 16% over 2015. Revenues of \$72.9m were once again, the highest in the history of the company. Excellent global sales of our treatment laser portfolio, the positive market response to our abinterno canaloplasty (ABIC) procedure using the iTrack™ glaucoma surgical device, combined with the lower Australian dollar contributed to the result.

There was good growth in all our major sales territories. A highlight was sales into Asia which grew by 98% on the 2015 result on the strength of demand from China for new ophthalmic hospital facilities. The improvement of our business in Japan was also a highlight. Following a loss-making year in 2015 a 29% increase in sales coupled with new product introduction and rejuvenated sales management, the business made a creditable EBITDA-level contribution in 2016.

Profitability of the business also improved during 2016. The ratio of EBITDA to sales climbed to 11% during the year compared with 9% in 2015. Better pricing, sales management improvements and focussed effort on both operating costs and production cost management are the primary drivers of the improved profitability.

The statement of financial position also improved during the year. As of 30 June 2016, net debt was \$0.9m down from \$2.2m at 30 June 2015. This is a particularly pleasing performance considering that during the year we borrowed \$2.1m for purchase and renovation of land and buildings to facilitate our production expansion. We currently expect to move into the new building (about 15km north of the Adelaide CBD) during the 2017 fiscal year.

A total of \$2.7m was spent during 2016 on the new product development including \$0.4m for the Laser Intervention in early AMD (LEAD) clinical trial. Interim results from this trial released during April 2016 were pleasing so this trial will continue as planned through to 2018. In the meantime, we continue to make improving sales to doctors based on the existing clinical data we have on hand.

### Financial position

As at 30 June 2016, the net assets of the consolidated group increased by \$8.5 million from 30 June 2015 to \$48.2 million.

The Board's goal is to continue to foster improved operational and profit performance whilst investing in future growth of the Ellex business.

### Environmental regulations

The group holds licences to operate the manufacturing processes required to produce its products. It is not subject to significant environmental regulation or reporting requirements. There have been no known significant breaches of the group's licence conditions.

### Significant changes in the State of affairs

During the year the following changes occurred within the Group:

- issue of share capital on 8 April 2016. The Group issued a total of 6,500,000 shares which resulted in total proceeds of \$4,732 thousand. Each share was issued with the same terms and conditions as existing shares.

### Future developments

The Company will continue to focus on the further development of its business being the development, manufacture, service and distribution of ophthalmic medical equipment for use in ophthalmic procedures worldwide and business related to these capabilities.

The market in which the business operates is very competitive. Therefore further disclosure of information regarding likely developments in the operations of the consolidated group in future financial years and the expected results of those operations is likely to prejudice the competitive position of the consolidated group. Accordingly, this information has not been disclosed in this report.

### Dividend

No dividend has been declared with respect to the year ended 30 June 2016 (2015: Nil).

### Share options

At the date of this report there are no shares under option.

There were no shares or interests issued during the financial year to directors, executives and staff as a result of exercise of an option.

### Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the

directors of the Company (as named above), the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of 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.

### Diversity

The gender quality indicators submitted in the Workplace Gender Report for financial year 30th June 2016.

	Total	Production	Others	Middle Management	Senior Management	Board
All Staff	265	88	137	27	8	5
Female Staff	72	23	39	5	4	1
% of total	27%	26%	28%	18%	50%	20%

Portion of Female Employees of Ellex Medical Lasers Limited as at 30 June 2016.

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Directors	Board of Directors		Audit & Risk Committee		Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
V Previn	11	11	4	4	4	4
A Sundich	11	10	4	3	-	-
G Canala	11	10	4	4	4	4
R Coupe	11	10	-	-	-	-
M Verma	11	11	-	-	4	4

## Directors' Report

### Director and executive shareholdings

Value of options issued to directors and executives.

No options were granted or exercised during the year on behalf of the company.

### Remuneration report - Audited

This remuneration report, which forms part of the director's report, sets out information about the remuneration of the directors and executives for the financial year ended 30 June 2016 in accordance with the Corporations Act 2001 and the Corporations Regulations 2001. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and executive details
- remuneration policy for directors and executives
- relationship between the remuneration policy and company performance
- key terms of employment contracts
- remuneration of directors and executives

### Director and executive details

The directors of Ellex Medical Lasers Limited during the year were:

- Victor Previn – Chairman
- Alex Sundich – Non-executive Director
- Giuseppe Canala – Independent Director
- Rahmon Coupe – Independent Director
- Meera Verma – Independent Director

The group executives of Ellex Medical Lasers Limited during the year were:

- Tom Spurling – Chief Executive Officer

### Relationship between the remuneration policy and company performance Non-executive and Independent directors

Total remuneration for all non-executive directors, last voted on by shareholders at the 2001 AGM, is not to exceed \$200,000 (exclusive of superannuation) per annum and is set based upon advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Non-executive and independent directors' base fees are presently \$30,000 per annum.

The Chairman receives a director's fee of \$20,000 plus \$10,000 chairman's fee per annum. Director's fees cover all main Board functions but exclude

membership of the Audit & Risk Committee. A fee of \$5,000 per annum is payable for membership of the Audit & Risk Committee. In addition, the Company pays compulsory superannuation. The Company does not have a formal Board Retirement scheme. Non-executive directors do not receive any performance related remuneration.

### Executive directors and executive management

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated group's diverse operations, recognising the Company's size, industry and location.

Remuneration and other terms of employment for executives are reviewed annually by the Board having regard to the individual's performance against goals and business plans, relevant comparative data and employment market conditions and independent expert advice.

Remuneration packages of executives incorporate a base salary (which can be taken as cash or fringe benefits), superannuation and performance-related short and long term incentives. The fixed component of remuneration is set to provide a base that is both appropriate to the position and is competitive in the market.

Short-term incentive payments are discretionary and take into account the extent to which specific operating targets set at the start of the financial year have been achieved. The operational targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance, the primary measure being the performance against profit targets.

Long-term incentives are linked to the improvement in the market value of the Company. The long term incentive is intended to reward efforts and results that promote long term growth in shareholder value.

The remuneration of key management personnel is based on an annual assessment of the individual's performance with reference to external data pertaining to executive remuneration. There is no link between the Company's performance and the setting of remuneration except as discussed previously.

Profit targets are defined as either Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) or Earnings Before Tax (EBT) or Regional Contribution margin, depending on the role of the employee involved. These have been chosen as the key measures by the Board as the most reflective performance indicators for the organisation at this point in its life cycle.

The tables below set out summary information about the consolidated group's earnings and movements in shareholder wealth for the five years to June 2016.

	30 June 2016	30 June 2015	30 June 2014	30 June 2013	30 June 2012
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue <sup>(i)</sup>	72,913	62,679	54,378	42,805	47,504
EBITDA	7,876	5,605	2,987	1,726	3,149
Net profit before tax	4,190	2,631	1,311	140	1,067
Net profit/(loss) after tax	3,027	1,680	788	(816)	1,050

<sup>(i)</sup> Revenue includes revenue from sale of goods on ongoing operations as per note 2 in the accounts.

	30 June 2016	30 June 2015	30 June 2014	30 June 2013	30 June 2012
	\$	\$	\$	\$	\$
Share price at start of year	0.310	0.375	0.200	0.115	0.180
Share price at end of year	0.960	0.310	0.375	0.200	0.115
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	2.77 cps	1.56 cps	0.73 cps	(1.0) cps	1.2 cps
Diluted earnings per share	2.77 cps	1.56 cps	0.73 cps	(1.0) cps	1.2 cps

### Key terms of employment contracts

Remuneration and other terms of employment of the Chief Executive Officer and senior executives are formalised in service agreements.

The payment of bonuses and other incentive payments are reviewed by the Remuneration Committee annually as part of the review of executive remuneration and a recommendation is put to the Board.

Tom Spurling – Chief Executive Officer

- Total remuneration package of \$373,489 inclusive of superannuation to be reviewed annually.
- Employer or employee may terminate employment on giving of 90 days' notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice. The termination benefit may be reduced by any amounts due to the Company under the long-term incentive arrangement.
- A short-term incentive payable at time of annual review, incentive will be at the discretion of the Board and based on overall performance of previous financial year. Range of incentive is \$25,000 to \$50,000.

- A long-term incentive in the form of shares of 68,295 for which an interest-free loan of \$49,954 was provided. The principle amount of this loan is only repayable from proceeds of the sale or termination of employment.

### Remuneration of directors and executives

Elements of director and executive compensation

The remuneration structure that has been adopted by the Group consists of the following components:

- Fixed salary/fees
- Benefits – including the provision of motor vehicle, superannuation and health benefits
- Short term incentive (STI) – the performance measures are set annually after consultation with the directors and executives and are specifically tailored to the areas where each executive has a level of control.

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person's pre-agreed KPI's.

## Directors' Report

### Transactions with other related parties

Other related parties include:

- the parent entity;
- subsidiaries;
- key management personnel of the consolidated group;
- and any other related parties.

At 30 June 2016, the following balances arising from transactions with key management personnel of the Group remain outstanding by the Group:

Amounts payable to (related to remuneration paid in arrears):

- V Previn \$10,113
- A Sundich \$10,113
- G Canala \$10,113
- M Verma \$8,669
- R Coupe \$8,669

All loans advanced to and payable to related parties are unsecured.

At 30 June 2015, the following balances arising from transactions with key management personnel of the Group remain outstanding by the Group:

Amounts payable to (related to remuneration paid in arrears):

- V Previn \$10,744
- A Sundich \$10,744
- G Canala \$10,744
- M Verma \$7,500
- R Coupe \$9,209

All loans advanced to and payable to related parties are unsecured.

Rental and outgoing expenses of \$41 thousand (2015: nil) were incurred with YourAmigo Limited, an Independent Director related entity.

### Director and executive shareholdings

The following table sets out each director's relevant beneficiary interest in shares of the Company or a related body corporate as at the date of this report:

Directors	Beneficiary holdings of directors and executives			
	Opening Balance 1 July 2015	Received during the year	Other changes during the year	Closing Balance
V Previn	9,316,031	-	-	9,316,031
A Sundich	6,300,000	-	-	6,300,000
G Canala	4,061,788	-	(1,000,000)	3,061,788
R Coupe	989,000	-	-	989,000
M Verma	49,000	-	-	49,000
T Spurling	530,786	68,295	-	599,081

2016	Short-term employee benefits				Post employment benefits			Share-based payment	Other long-term benefits	Total
	Salary	Director fees	Bonus	Non-monetary Benefits	Pension and super-annuation	Other				
Directors	\$	\$	\$	\$	\$	\$	\$	\$	\$	
V Previn	100,000	35,000	-	-	12,825	-	-	-	147,825	
G Canala	-	35,000	-	-	3,325	-	-	-	38,325	
A Sundich	-	35,000	-	-	3,325	-	-	-	38,325	
R Coupe	-	30,000	-	-	2,850	-	-	-	32,850	
M Verma	-	30,000	-	-	2,850	-	-	-	32,850	
Executives										
T Spurling <sup>(i)</sup>	297,801	-	-	-	25,734	-	49,954	-	373,489	
<b>Total</b>	<b>397,801</b>	<b>165,000</b>	<b>-</b>	<b>-</b>	<b>50,909</b>	<b>-</b>	<b>49,954</b>	<b>-</b>	<b>663,664</b>	

2015	Short-term employee benefits				Post employment benefits			Other long-term benefits	Total
	Salary	Director fees	Bonus	Non-monetary Benefits	Pension and super-annuation	Other	Share-based payment		
Directors	\$	\$	\$	\$	\$	\$	\$	\$	
V Previn	100,000	35,000	-	4,615	12,825	-	-	-	152,440
G Canala	-	35,000	-	-	3,325	-	-	-	38,325
A Sundich	-	35,000	-	-	3,325	-	-	-	38,325
R Coupe	-	30,000	-	-	2,850	-	-	-	32,850
M Verma	-	30,000	-	-	-	-	-	-	30,000
Executives									
T Spurling <sup>(i)</sup>	269,072	-	-	-	19,068	-	43,939	-	332,079
<b>Total</b>	<b>369,072</b>	<b>165,000</b>	<b>-</b>	<b>4,615</b>	<b>41,393</b>	<b>-</b>	<b>43,939</b>	<b>-</b>	<b>624,019</b>

Bonuses granted as compensation and additional comments – 2016 and 2015

<sup>(i)</sup> T Spurling - Interest-free loan to purchase shares, refer to section 'Key terms of employment contracts'.

Directors	Performance based remuneration							
	Fixed remuneration		Bonus		LTI		At risk	
	2016 %	2015 %	2016	2015 %	2016 %	2015 %	2016 %	2015 %
V Previn	100	100	-	-	-	-	-	-
G Canala	100	100	-	-	-	-	-	-
A Sundich	100	100	-	-	-	-	-	-
R Coupe	100	100	-	-	-	-	-	-
M Verma	100	100	-	-	-	-	-	-
T Spurling	86	86	-	-	14	14	14	14

End of remuneration report

### Proceedings on behalf of the Company

There are currently no pending proceedings on behalf of the Company.

No persons have applied for leave of the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings. No proceedings have been brought or intervened on behalf of the Group with leave of the court under section 237 of the Corporations Act 2001.

### Non-audit services

Details on amounts paid or payable to the auditor for all services provided during the year by the auditor are outlined in note 31 to the financial statements. No non-audit services were provided to the company by the Auditor during the year (2015: nil).

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 is following this Directors' report.

### Rounding off of amounts

The Company is a company of the kind referred to in ASIC Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors.



V Previn  
Chairman  
Adelaide, 26 August 2016



Level 1,  
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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF ELLEX MEDICAL LASERS LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Ellex Medical Lasers Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

*S K Edwards*

S K Edwards  
Partner – Audit & Assurance

Adelaide, 26 August 2016

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## Financial Information

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2016

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
Revenue	2	72,913	62,679
Other income	4(a)	229	281
Changes in inventories of finished goods and work in progress		1,355	839
Raw materials and consumables used	4(b)	(32,408)	(30,644)
Employee benefits expense		(21,036)	(16,512)
Legal fees	4(b)	(379)	(467)
Depreciation and amortisation expense	4(b)	(3,148)	(2,532)
Impairment expense		(355)	-
Advertising and marketing		(3,127)	(2,254)
Facility expense		(1,876)	(1,737)
Finance costs	3	(214)	(204)
Implied interest for deferred consideration		(324)	(238)
Product development expenses		(1,192)	(797)
Foreign exchange gain	4(b)	75	387
Other expenses		(6,323)	(6,170)
<b>Profit before income tax</b>		<b>4,190</b>	<b>2,631</b>
Income tax (expense)	5	(1,163)	(951)
<b>Profit for the year attributable to members of the parent</b>		<b>3,027</b>	<b>1,680</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Exchange differences on translating foreign operations		624	1,164
<b>Total comprehensive income for the year attributable to members of the parent</b>		<b>3,651</b>	<b>2,844</b>
Earnings per share:			
Basic earnings per share (cents)	21	2.77	1.56
Diluted earnings per share (cents)	21	2.77	1.56

Notes to the financial statements are included on pages 38 to 86.

## Consolidated Statement of Financial Position as at 30 June 2016

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents	28	7,283	4,593
Trade and other receivables	7	15,399	12,153
Inventories	8	18,641	15,682
Other current assets	9	1,476	1,142
Current tax receivable		26	-
<b>Total current assets</b>		<b>42,825</b>	<b>33,570</b>
<b>Non-current assets</b>			
Trade and other receivables	7	338	293
Inventories	8	608	612
Property, plant and equipment	10	7,771	3,635
Intangible assets	11	4,093	4,369
Capitalised development expenditure	12	11,579	10,710
Deferred tax assets	5(b)	4,776	5,791
<b>Total non-current assets</b>		<b>29,165</b>	<b>25,410</b>
<b>Total assets</b>		<b>71,990</b>	<b>58,980</b>
<b>Current liabilities</b>			
Trade and other payables	14	9,063	6,447
Borrowings	15	5,779	6,010
Provisions	16	3,137	2,591
Deferred income	17	663	527
Current tax liabilities		-	36
<b>Total current liabilities</b>		<b>18,642</b>	<b>15,611</b>
<b>Non-current liabilities</b>			
Trade and other payables	14	2,528	2,662
Borrowings	15	2,390	747
Deferred income	17	69	50
Provisions	16	104	116
<b>Total non-current liabilities</b>		<b>5,091</b>	<b>3,575</b>
<b>Total liabilities</b>		<b>23,733</b>	<b>19,186</b>
<b>Net assets</b>		<b>48,257</b>	<b>39,794</b>
<b>Equity</b>			
Issued capital	18	46,041	41,229
Reserves	19	(343)	(967)
Accumulated profits/(losses)	20	2,559	(468)
<b>Total equity</b>		<b>48,257</b>	<b>39,794</b>

Notes to the financial statements are included on pages 38 to 86.

## Consolidated Statement of Changes in Equity for the financial year ended 30 June 2016

	Issued capital \$'000	Other reserves \$'000	Foreign currency reserve \$'000	Accumulated (losses)/ profits \$'000	Total \$'000
Balance at 1 July 2014	41,229	142	(2,273)	(2,148)	36,950
Profit for the year	-	-	-	1,680	1,680
Other comprehensive income	-	-	1,164	-	1,164
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1,164</b>	<b>1,680</b>	<b>2,844</b>
<b>Balance at 30 June 2015</b>	<b>41,229</b>	<b>142</b>	<b>(1,109)</b>	<b>(468)</b>	<b>39,794</b>
Issue of share capital	5,005	-	-	-	5,005
Transaction costs	(193)	-	-	-	(193)
<b>Total of transactions with owners</b>	<b>4,812</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,812</b>
Profit for the year	-	-	-	3,027	3,027
Other comprehensive income	-	-	624	-	624
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>624</b>	<b>3,027</b>	<b>3,651</b>
<b>Balance at 30 June 2016</b>	<b>46,041</b>	<b>142</b>	<b>(485)</b>	<b>2,559</b>	<b>48,257</b>

Notes to the financial statements are included on pages 38 to 86.

## Statement of Cash Flows for the financial year ended 30 June 2016

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		71,414	62,566
Grant income received		-	224
Payments to suppliers and employees		(65,984)	(55,604)
Interest and other costs of finance paid		(214)	(204)
Income tax (paid)/received		-	(92)
<b>Net cash provided by operating activities</b>	<b>28(c)</b>	<b>5,216</b>	<b>6,890</b>
<b>Cash flows from investing activities</b>			
Interest received		11	4
Payment for deposits		-	(121)
Payment for deferred consideration		(672)	(566)
Payment for building		(3,769)	-
Payment for plant and equipment		(1,351)	(1,485)
Proceeds from sale of plant and equipment		-	39
Payment for intangible assets		(181)	(282)
Payments for capitalised development costs		(2,747)	(2,321)
<b>Net cash used in investing activities</b>		<b>(8,709)</b>	<b>(4,732)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		4,732	-
Proceeds from borrowings		353	2,324
Repayment of borrowings		(948)	(1,263)
Repayment of leases		(165)	(43)
Proceeds from mortgage		2,067	-
<b>Net cash provided by financing activities</b>		<b>6,039</b>	<b>1,018</b>
Net increase in cash and cash equivalents		2,546	3,176
Cash and cash equivalents at the beginning of the financial year		4,593	1,786
Effects of exchange rate changes on the balance of cash held in foreign currencies		144	(369)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>28(a)</b>	<b>7,283</b>	<b>4,593</b>

Notes to the financial statements are included on pages 38 to 86.

## Notes to the Financial Statements for the financial year ended 30 June 2016

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## Notes to the Financial Statements

### 1. Significant accounting policies

This financial report includes the consolidated financial statements and notes of Ellex Medical Lasers Limited and controlled entities "Consolidated Group".

#### Statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Ellex Medical Lasers Limited is the Group's Ultimate Parent Company. Ellex Medical Lasers Limited is a Public Company incorporated and domiciled in Australia. The address of its principal place of business is 82 Gilbert Street, Adelaide SA 5000.

The consolidated financial statements for the year ended 30 June 2016 were approved and authorised for issue by the Board of Directors on 24 August 2016.

#### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. All amounts are presented in Australian Dollars unless otherwise stated.

The Company is a company of the kind referred to in ASIC Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated. Ellex Medical Lasers Limited is a for profit entity for the purpose of preparing financial statements.

#### New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2015. Information on the more significant standards is presented below.

AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent

AASB 2015-4 amends AASB 128 Investments in Associates and Joint Ventures to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 Consolidated Financial Statements for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

The adoption of this amendment has not had a material impact on the Group.

#### New standards and interpretations issued not yet effective

##### AASB 9 Financial Instruments (effective date: 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- a. Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

## Notes to the financial statements

### 1. Significant accounting policies continued

- d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
- the change attributable to changes in credit risk are presented in Other Comprehensive Income ('OCI')
  - the remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

#### **AASB 15 Revenue from Contracts with Customers (effective date: 1 January 2018)**

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:

- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

In May 2015, the AASB issued ED 260 Income of Not-for-Profit Entities, proposing to replace the income recognition requirements of AASB 1004 Contributions and provide guidance to assist not-for-profit entities to apply the principles of AASB 15. The ED was open for comment until 14 August 2015 and the AASB is currently in the process of redeliberating its proposals with the aim of releasing the final amendments in late 2016.

When this Standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

#### **AASB 16 Leases (effective date: 1 January 2019)**

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The entity is yet to undertake a detailed assessment of the impact of AASB 16.

## Notes to the financial statements

### 1. Significant accounting policies *continued*

#### **AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation (effective date: 1 January 2016)**

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome i.e., a revenue-based amortisation method might be appropriate only in two limited circumstances:

- I. The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- II. When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

#### **AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements (effective date: 1 January 2016)**

The amendments introduce the equity method of accounting as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

#### **AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 (effective date: 1 January 2016)**

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

#### **AASB 2015-8 Amendments to Australian Accounting Standards (effective 1 January 2017)**

AASB 2015-8 amends the mandatory application date of AASB 15 Revenue from Contracts with Customers so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017. It also defers the consequential amendments that were originally set out in AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.

## Notes to the financial statements

### 1. Significant accounting policies *continued*

#### **AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs (effective 1 January 2016)**

AASB 2015-9 inserts scope paragraphs into AASB 8 Operating Segments and AASB 133 Earnings per Share in place of application paragraph text in AASB 1057.

In July and August 2015, the AASB reissued AASB 8, AASB 133 and most of the Australian Accounting Standards that incorporate IFRSs to make editorial changes. The application paragraphs in the previous versions of AASB 8 and AASB 133 covered scope paragraphs that appear separately in the corresponding IFRS 8 and IAS 33. In moving those application paragraphs to AASB 1057 when AASB 8 and AASB 133 were reissued in August, the AASB inadvertently deleted the scope details from AASB 8 and AASB 133. This amending Standard puts the scope details into those standards, and removes the related text from AASB 1057. There is no change to the requirements or the applicability of AASB 8 and AASB 133.

When this standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.

#### **AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 (effective 1 January 2016)**

This standard defers the mandatory application date of amendments to AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures that were originally made in AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.

The amendments have been deferred as the IASB is planning to address them as part of its longer term Equity Accounting project. However, early application of the amendments is still permitted.

#### **AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)**

AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

#### **AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (effective 1 January 2017)**

AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

#### **Accounting Policies**

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented in these financial statements for the year ended 30 June 2015.

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

##### **(i) Financial assets**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

## Notes to the financial statements

### 1. Significant accounting policies *continued*

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

#### **Financial assets at fair value through profit or loss**

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired principally for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the consolidated group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss and includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 29.

#### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

#### **Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **(ii) Financial instruments issued by the Company** **Equity instruments**

Equity instruments are classified as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the consolidated group are recorded at the proceeds received, net of direct issue costs.

## Notes to the financial statements

### 1. Significant accounting policies continued

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### (iii) Foreign currency

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Ellex Medical Lasers Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entities functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the consolidated group's foreign currency translation reserve. Such differences are recognised in profit or loss in the period in which the foreign operation is disposed.

#### (iv) Goods and services tax

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

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

#### (v) Impairment of assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

## Notes to the financial statements

### 1. Significant accounting policies *continued*

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **(vi) Principles of consolidation**

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated group, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 10 'Consolidated Financial Statements'. A list of subsidiaries appears in note 25 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of non-controlling shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

## Notes to the financial statements

### 1. Significant accounting policies *continued*

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

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the consolidated group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination.

#### **(vii) Significant management judgement in applying accounting policies**

When preparing the financial statements, management undertakes a number of judgements, estimate and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

#### **Significant management judgement**

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

#### **Recognition of deferred tax assets**

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see note 5).

#### **Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### **Impairment**

In assessing impairment, management estimate the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In 2016, the Group has recognised an impairment loss on capitalised development expenditure of \$266 thousand (2015: nil) and \$89 thousand (2015: nil) on patents and trademarks.

## Notes to the financial statements

### 2. Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts.

#### Sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer to the buyer of the significant risks and rewards of ownership of the goods.

#### Rendering of Services

The Group generates revenues from after-sale service and maintenance, and extended warranty contracts. Consideration received for those services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

#### Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

	Consolidated Group	
	2016 \$'000	2015 \$'000
Revenue from continuing operations consisted of the following items:		
<b>Revenue from the sale of goods &amp; services</b>	<b>72,913</b>	<b>62,679</b>

### 3. Finance costs

	Consolidated Group	
	2016 \$'000	2015 \$'000
Interest on bank overdrafts and loans	196	191
Interest on obligations under finance leases	18	13
<b>Attributable to continuing operations</b>	<b>214</b>	<b>204</b>

## Notes to the financial statements

### 4. Profit for year

Profit for the year has been arrived at after crediting (charging) the following gains and losses from continuing operations:

#### (a) Other income

Government grants are assistance by the government in the form of transfers of resources to the consolidated group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated group other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated group with no future related costs are recognised as income in the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

	Consolidated Group	
	2016 \$'000	2015 \$'000
(Loss)/gain on disposal of property, plant and equipment	(35)	(28)
Grants income	-	224
D.O.R.C. settlement income	150	-
Interest	12	4
Other income	102	81
	<b>229</b>	<b>281</b>

## Notes to the financial statements

### 4. Profit for year continued

#### (b) Other expenses

Profit before income tax has been arrived at after charging the following expenses. The line items below are attributable to continuing operations:

	Consolidated Group	
	2016 \$'000	2015 \$'000
Cost of goods sold	32,408	30,644
Net bad and doubtful debts arising from:		
Trade and other receivables	-	(18)
	-	(18)
Write-down of inventories to net realisable value	(567)	(877)
Write-off of obsolete stock	595	664
<b>Total of movement in stock provision</b>	<b>(28)</b>	<b>(213)</b>
Depreciation of property, plant and equipment	1,057	743
Amortisation of intangible assets	1,674	1,432
Amortisation on earn out	417	357
<b>Depreciation and amortisation expense</b>	<b>3,148</b>	<b>2,532</b>
Legal fees	379	467
Foreign exchange (gains)	(75)	(387)
Operating lease rental expenses:		
Minimum lease payments	1,012	1,479
Superannuation contributions	898	739

## Notes to the financial statements

### 5. Income Tax

#### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### Deferred tax

Deferred tax is accounted for using the liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences

that would follow from the manner in which the consolidated group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated group intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

#### Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Ellex Medical Lasers Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 5 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

## Notes to the financial statements

## 5. Income Tax continued

## (a) Income tax recognised in profit or loss

	Consolidated Group	
	2016 \$'000	2015 \$'000
Tax expense comprises:		
Current tax expense	53	24
Deferred tax expense	1,110	927
<b>Total tax expense</b>	<b>1,163</b>	<b>951</b>
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
<b>Profit from operations</b>	<b>4,190</b>	<b>2,631</b>
Income tax expense	1,257	789
Non-deductible expenses	226	6
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	22	67
Other – Research and Development Tax Concession	(275)	(71)
Other	378	129
(Over)/under provision of income tax in previous year	(445)	31
<b>Total income tax expenses</b>	<b>1,163</b>	<b>951</b>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate in Australia when compared with the previous reporting period.

## Notes to the financial statements

## 5. Income Tax continued

## (b) Deferred tax balances

Deferred tax assets/(liabilities) arising from the following:

2016	Consolidated Group			
	1/07/15 \$'000	Charged to Income \$'000	Charged to Equity \$'000	30/06/16 \$'000
<b>Assets</b>				
<b>Temporary differences</b>				
Property, plant and equipment	(144)	200	-	56
Intangibles	2,262	1	-	2,263
Capitalised Development costs	(3,380)	(261)	-	(3,641)
Section 40-880 deductions	121	(58)	82	145
Provisions	972	33	-	1,005
Doubtful debts	5	(5)	-	-
Temporary difference on unrealised intercompany profits	417	30	-	447
Other	22	292	-	314
<b>Liabilities</b>				
Provisions	(36)	36	-	-
	<b>239</b>	<b>266</b>	<b>82</b>	<b>589</b>
<b>Unused tax losses and credits</b>				
Tax losses (Japan)	1,005	(202)	-	803
Tax losses (USA)	607	(544)	-	63
Tax losses (Germany)	176	(60)	-	116
Tax losses (France)	186	(186)	-	-
Tax losses (USA Ellex iScience)	181	(13)	-	168
Unused Research and Development tax offset	3,361	(322)	-	3,037
	<b>5,516</b>	<b>(1,327)</b>	<b>-</b>	<b>4,187</b>
	<b>5,755</b>	<b>(1,061)</b>	<b>82</b>	<b>4,776</b>

Tax losses not recognised are \$8,821 thousand (2015: \$4,589 thousand).

## Notes to the financial statements

## 5. Income Tax continued

## (b) Deferred tax balances continued

2015	Consolidated Group			
	1/07/14 \$'000	Charged to Income \$'000	Charged to Equity \$'000	30/06/15 \$'000
<b>Assets</b>				
<b>Temporary differences</b>				
Property, plant and equipment	46	(190)	-	(144)
Intangibles	2,282	(20)	-	2,262
Capitalised Development costs	(3,072)	(308)	-	(3,380)
Section 40-880 deductions	165	(44)	-	121
Provisions	542	430	-	972
Doubtful debts	7	(2)	-	5
Temporary difference on unrealised intercompany profits	737	(320)	-	417
Other	210	(188)	-	22
<b>Liabilities</b>				
Provisions	(83)	47	-	(36)
	<b>834</b>	<b>(595)</b>	<b>-</b>	<b>239</b>
<b>Unused tax losses and credits</b>				
Tax losses (Japan)	973	32	-	1,005
Tax losses (USA)	560	47	-	607
Tax losses (Germany)	193	(17)	-	176
Tax losses (France)	137	49	-	186
Tax losses (USA Ellex iScience)	-	181	-	181
Tax losses (Tax consolidated group)	1,124	(1,124)	-	-
Unused Research and Development tax offset	2,892	469	-	3,361
	<b>5,879</b>	<b>(363)</b>	<b>-</b>	<b>5,516</b>
	<b>6,713</b>	<b>(958)</b>	<b>-</b>	<b>5,755</b>

## Notes to the financial statements

### 5. Income Tax *continued*

#### (c) Tax consolidation

##### **Relevance of tax consolidation to the consolidated group**

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Ellex Medical Lasers Limited. The members of the tax-consolidated group are identified at note 25.

##### **Nature of tax funding arrangements and tax sharing agreements**

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Ellex Medical Lasers Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

### 6. Share-based payments

The consolidated group has an ownership based compensation 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.

No options have been issued in the year (2015: nil). As part of CEO remuneration a share based payment of \$49 thousand (2015: \$43 thousand) was paid during the year. Refer to the Directors' Report.

## Notes to the financial statements

## 7. Trade and other receivables

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Current</b>		
Trade receivables <sup>(i)</sup>	15,217	12,025
Allowance for doubtful debts	-	(18)
	<b>15,217</b>	<b>12,007</b>
Other receivables	106	142
Goods and services tax (GST) receivable	76	4
	<b>15,399</b>	<b>12,153</b>
<b>Non-Current</b>		
Sundry receivables	338	293
	<b>338</b>	<b>293</b>
<b>Ageing of past due but not impaired</b>		
1 - 30 days	226	1,325
30 - 60 days	445	293
60 - 90 days	686	337
90 - 120 day	214	326
<b>Total</b>	<b>1,571</b>	<b>2,281</b>
<b>Movement in the allowance for doubtful debts</b>		
Balance at the beginning of the year	(18)	(33)
Amounts written off as uncollectible	-	(18)
Amounts reversed as previously over provided	18	33
<b>Balance at the end of the year</b>	<b>-</b>	<b>(18)</b>
<b>Ageing of impaired trade receivables</b>		
60 – 90 days	-	-
90 – 120 days	-	-
120 + days	-	18
<b>Total</b>	<b>-</b>	<b>18</b>

<sup>(i)</sup> The debtors balance that has been financed is \$5,118 thousand (2015: \$4,945 thousand). This relates specifically to receivables due from customers in Japan, USA and Australia. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

## Notes to the financial statements

### 8. 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 by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Current</b>		
Raw materials – at cost	4,485	3,452
Raw materials – at net realisable value	389	495
Work in progress – at cost	1,323	973
Work in progress – at net realisable value	44	71
Finished goods – at cost	12,266	10,380
Finished goods – at net realisable value	134	311
	<b>18,641</b>	<b>15,682</b>
<b>Non-Current</b>		
Finished goods – at cost	608	612
Provision for stock obsolescence <sup>(i)</sup>	(728)	(700)

<sup>(i)</sup> Included in inventory recognised at net realisable value is a provision for stock obsolescence of \$728 thousand (2015: \$700 thousand).

### 9. Other current assets

	Consolidated Group	
	2016 \$'000	2015 \$'000
Prepayments	1,476	1,142

### 10. Property, plant and equipment

Property, plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the items payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis and diminishing value basis so as to write off the net cost or other revalued amount of each asset over its expected useful life.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Capital WIP is not depreciated until the asset is ready for use. Capital WIP largely represents the Mawson Lakes building and fit out costs.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 2 – 20 years

## Notes to the financial statements

## 10. Property, plant and equipment continued

	Consolidated Group		
	Capital WIP \$'000	Plant & Equipment at Cost \$'000	Total \$'000
<b>Gross carrying amount</b>			
Balance at 30 June 2014	-	10,057	10,057
Additions	32	1,453	1,485
Disposals	-	(544)	(544)
Net foreign currency exchange difference	-	2	2
<b>Balance as at 30 June 2015</b>	<b>32</b>	<b>10,968</b>	<b>11,000</b>
Additions	4,172	960	5,132
Disposals	(32)	(60)	(92)
Net foreign currency exchange difference	-	258	258
<b>Balance at 30 June 2016</b>	<b>4,172</b>	<b>12,126</b>	<b>16,298</b>
<b>Accumulated depreciation/amortisation and impairment</b>			
Balance at 30 June 2014	-	(6,979)	(6,979)
Depreciation	-	(743)	(743)
Disposals	-	140	140
Net foreign currency exchange differences	-	217	217
<b>Balance at 30 June 2015</b>	<b>-</b>	<b>(7,365)</b>	<b>(7,365)</b>
Depreciation	-	(1,057)	(1,057)
Disposals	-	43	43
Net foreign currency exchange differences	-	(148)	(148)
<b>Balance at 30 June 2016</b>	<b>-</b>	<b>(8,527)</b>	<b>(8,527)</b>
<b>Net book value</b>			
As at 30 June 2015	32	3,603	3,635
As at 30 June 2016	4,172	3,599	7,771

## Notes to the financial statements

**11. Intangible assets****Patents, trademarks and licences**

Patents, trademarks and licences are recorded at cost less accumulated amortisation. Amortisation is charged on a straight line basis over the estimated useful lives (2-20 years) of the products the patent covers. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

**Intellectual Property**

Intellectual property acquired is recognised at fair value and is amortised straight line over ten years.

	Intellectual Property	Patents & Trademarks	Consolidated Group
	\$'000	\$'000	Total \$'000
<b>Carrying amount</b>			
Balance at 30 June 2014	3,145	1,103	4,248
Additions	-	260	260
Foreign currency exchange differences	726	22	748
<b>Balance at 30 June 2015</b>	<b>3,871</b>	<b>1,385</b>	<b>5,25</b>
Additions	-	183	183
Impairment <sup>(i)</sup>	-	(146)	(146)
Foreign currency exchange differences	114	3	117
<b>Balance at 30 June 2016</b>	<b>3,985</b>	<b>1,425</b>	<b>5,410</b>
<b>Accumulated amortisation and impairment</b>			
Balance at 30 June 2014	(157)	(258)	(415)
Amortisation expense	(417)	(55)	(472)
<b>Balance at 30 June 2015</b>	<b>(574)</b>	<b>(313)</b>	<b>(887)</b>
Amortisation expense	(408)	(71)	(479)
Impairment <sup>(i)</sup>	-	57	57
Foreign currency exchange differences	(8)	-	(8)
<b>Balance at 30 June 2016</b>	<b>(990)</b>	<b>(327)</b>	<b>(1,317)</b>
<b>Net book value</b>			
As at 30 June 2015	3,297	1,072	4,369
As at 30 June 2016	2,995	1,098	4,093

<sup>(i)</sup> Impairment is a result of non renewal of patents.

## Notes to the financial statements

## 12. Capitalised development expenditure

	Consolidated Group Capitalised Development \$'000
<b>Gross carrying amount</b>	
Balance at 30 June 2014	16,356
Additions	2,321
<b>Balance at 30 June 2015</b>	<b>18,677</b>
Additions	2,747
Impairment <sup>(i)</sup>	(266)
<b>Balance at 30 June 2016</b>	<b>21,158</b>
<b>Accumulated amortisation and impairment</b>	
Balance at 30 June 2014	(6,674)
Amortisation expense	(1,293)
<b>Balance at 30 June 2015</b>	<b>(7,967)</b>
Amortisation expense	(1,612)
<b>Balance at 30 June 2016</b>	<b>(9,579)</b>
<b>Net book value</b>	
As at 30 June 2015	10,710
As at 30 June 2016	11,579

**Research and development expense/capitalised development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised over the period which the products are actually sold:

- |                                 |              |
|---------------------------------|--------------|
| • Capitalised development costs | 5 – 10 years |
|---------------------------------|--------------|

<sup>(i)</sup> Impairment represents the write back of previously capitalised expenditure for projects no longer continuing.

## Notes to the financial statements

**13. Assets pledged as security**

In accordance with the security arrangements of liabilities, as disclosed in note 15 to the financial statements, all non-current and current assets of the consolidated group (except capitalised development and deferred tax assets), have been pledged as security under banking agreements. There is a first registered mortgage over the property situated at 3-4 Second Avenue, Mawson Lakes, South Australia.

**14. Current and non-current trade and other payables****Current**

	Consolidated Group	
	2016 \$'000	2015 \$'000
Trade payables	5,266	3,561
Accruals	1,743	971
Accrual for deferred consideration	765	688
Payable to directors	48	49
Other payables	1,241	1,178
	<b>9,063</b>	<b>6,447</b>

**Non-current**

	Consolidated Group	
	2016 \$'000	2015 \$'000
Accrual for deferred consideration	2,528	2,662

## Notes to the financial statements

**15. Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowings using the effective interest rate method. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Current</b>		
Bank borrowings <sup>(ii)</sup>	5,292	5,762
Finance lease liabilities (note 24a) <sup>(iii)</sup>	116	64
Mortgage (Mawson Lakes) <sup>(i)</sup>	175	-
Other loans (unsecured)	196	184
	<b>5,779</b>	<b>6,010</b>
<b>Non-Current</b>		
Bank borrowings <sup>(ii)</sup>	149	396
Mortgage (Mawson Lakes) <sup>(i)</sup>	1,892	-
Finance lease liabilities (note 24a) <sup>(iii)</sup>	349	351
	<b>2,390</b>	<b>747</b>

**Summary of borrowing arrangements**

During the year the Ellex Group has entered into a new Banking Facility Agreement with Australian and New Zealand Group Limited (ANZ).

- (i) Loan mortgage for Mawson Lakes with floating interest rates \$2,067 thousand. Repayments for this facility are not due until June 2017.
- (ii) Bank borrowings is the sum of ANZ and Kansai Bank facility in Japan. The ANZ facility is a combination of working capital facilities, overdraft and cash advance. This facility is an "umbrella" facility across the subsidiaries in the group. A financial instrument in any one subsidiary in the currency of AUD, USD, YEN, RMB and EUR can be financed in this facility. Interest rates are floating BBR daily rates for the relevant currency.

The current bank borrowings represent:

- ANZ Banking Facility \$5,118 thousand (2015: \$4,945 thousand)
- Kansai Urban Bank \$174 thousand (2015: \$198 thousand)

The non-current bank borrowings represent:

- Kansai Urban Bank \$149 thousand (2015: \$395 thousand)

- (iii) Secured by the assets leased. The borrowings are all at fixed interest rates with repayment periods not exceeding 5 years.

## Notes to the financial statements

**16. Provisions**

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

**Warranties**

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the consolidated group's liability.

Provision is made for benefits accruing to employees in respect of wages and salaries, staff bonuses, 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 employee benefits expected to be settled within 12 months, are measured at their nominal values using the compensation rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits 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 group in respect of services provided by employees up to reporting date.

Contributions to employee contribution super plans are expensed when incurred.

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Current</b>		
Employee benefits	2,758	2,266
Warranty <sup>(i)</sup>	379	325
	<b>3,137</b>	<b>2,591</b>
<b>Non-Current</b>		
Employee benefits	104	116

	Consolidated Group	
	Warranty (i) \$'000	
Balance at 30 June 2014		301
Additional provisions recognised		419
Amounts used		(395)
<b>Balance at 30 June 2015</b>		<b>325</b>
Additional provisions recognised		491
Amounts used		(437)
<b>Balance at 30 June 2016</b>		<b>379</b>

<sup>(i)</sup> The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the consolidated group'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.

## Notes to the financial statements

## 17. Deferred income

	Consolidated Group	
	2016 \$'000	2015 \$'000
Deferred income current	663	527
Deferred income non-current	69	50

## 18. Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	Consolidated Group	
	2016 \$'000	2015 \$'000
114,146,897 fully paid ordinary shares		
<b>(2015: 107,646,897)</b>	<b>46,041</b>	<b>41,229</b>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Company 2016		Company 2015	
	No. '000	\$'000	No. '000	\$'000
Fully paid ordinary shares				
Balance at beginning of financial year	107,646	41,229	107,646	41,229
Share issue	6,500	4,812	-	-
<b>Balance at end of financial year</b>	<b>114,146</b>	<b>46,041</b>	<b>107,646</b>	<b>41,229</b>

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

## Notes to the financial statements

## 19. Reserves

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Foreign currency translation reserve</b>		
Balance at beginning of financial year	(1,109)	(2,273)
Translation of foreign operations	624	1,164
<b>Balance at end of financial year</b>	<b>(485)</b>	<b>(1,109)</b>
Exchange differences relating to the translation from USA Dollars, Japanese YEN and the Euro, being the functional currencies of the consolidated group's foreign subsidiaries in the USA, Japan, France and Germany, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.		
<b>Other reserves</b>		
Balance at beginning of financial year	142	142
Transaction with non-controlling interest	-	-
<b>Balance at end of financial year</b>	<b>142</b>	<b>142</b>

**Transactions with non-controlling interests**

This reserve is issued to record the differences described which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

## 20. Accumulated profits/(losses)

	Consolidated Group	
	2016 \$'000	2015 \$'000
Balance at beginning of financial year	(468)	(2,148)
Net profit attributable to members of the parent entity	3,027	1,680
<b>Balance at end of financial year</b>	<b>2,559</b>	<b>(468)</b>

## 21. Earnings per share

**Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year

**Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## Notes to the financial statements

## 21. Earnings per share continued

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Basic earnings per share:</b>		
<b>Total basic earnings per share</b>	<b>2.77</b>	<b>1.56</b>
<b>Diluted earnings per share:</b>		
<b>Total diluted earnings per share</b>	<b>2.77</b>	<b>1.56</b>

**Basic and diluted earnings per share**

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	Consolidated Group	
	2016 \$'000	2015 \$'000
Net profit	3,027	1,680

	Consolidated Group	
	2016 No.	2015 No.
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	109,142,787	107,646,897

## Notes to the financial statements

**22. Dividends**

	2016		2015	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Consolidated Group	
	2016 \$'000	2015 \$'000
Adjusted franking account balance	3,797	3,889

**23. Commitments for expenditure****Lease commitments**

Finance lease liabilities are non-cancellable lease commitments and are disclosed in note 24 to the financial statements.

Contractual commitments for the acquisition of property, plant and equipment as at 30 June 2016 are \$793 thousand (2015: nil)

**24. Leases**

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## Notes to the financial statements

**24. Leases** continued**(a) Finance leases****Leasing arrangements**

Finance leases relate to motor vehicles, plant and equipment and leasehold improvements with lease terms of 3 to 5 years.

The consolidated group's obligation under finance leases are secured by the lessor's title to the leased assets.

	Present value of minimum future lease payments	
	Consolidated Group	
	2016 \$'000	2015 \$'000
Not longer than 1 year	138	80
1 to 5 years	376	376
Greater than 5 years	-	-
<b>Minimum future lease payments</b>	<b>514</b>	<b>456</b>
Less future finance charges	(49)	(41)
<b>Present value of minimum lease payments</b>	<b>465</b>	<b>415</b>

**(b) Operating leases****Leasing arrangements**

Operating leases relate to business premises with lease terms of between 8 months to 5 years and plant and equipment with lease terms less than 5 years.

The lease for Gilbert Street has been extended until February 2017 at an amount of \$64,342 per month.

	Consolidated Group	
	2016 \$'000	2015 \$'000
Non-cancellable operating lease payments		
Not longer than 1 year	1,093	1,012
Longer than 1 year and not longer than 5 years	772	994
	<b>1,865</b>	<b>2,006</b>

## Notes to the financial statements

**25. Subsidiaries**

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair values of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Name of Entity	Country of Incorporation	Ownership Interest	
		2016 %	2015 %
<b>Parent Entity</b>			
Ellex Medical Lasers Limited <sup>(i) (ii)</sup>	Australia		
<b>Subsidiaries</b>			
Ellex Medical Pty Ltd <sup>(i) (ii)</sup>	Australia	100	100
Laserex Medical Pty Ltd <sup>(ii)</sup>	Australia	100	100
Ellex Inc	USA	100	100
Ellex Inc	Japan	100	100
Ellex R&D Pty Ltd <sup>(i) (ii)</sup>	Australia	100	100
Ellex Australia Pty Ltd <sup>(i) (ii)</sup>	Australia	100	100
Ellex Services Europe SARL	France	100	100
Ellex France SARL <sup>(iii)</sup>	France	-	100
Innovative Imaging, Inc	USA	100	100
Ellex Deutschland GmbH	Germany	100	100
Ellex Machine Shop Pty Ltd <sup>(i) (ii)</sup>	Australia	100	100
Ellex iScience Inc	USA	100	100

<sup>(i)</sup> Ellex Medical Lasers Limited is the head of the Tax Consolidated Group which included Ellex Medical Pty Ltd, Ellex Australia Pty Ltd, Ellex R&D Pty Ltd and Ellex Machine Shop Pty Ltd

<sup>(ii)</sup> These wholly-owned subsidiaries have entered into a deed of cross-guarantee with Ellex Medical Lasers Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report from the year ended 30 June 2009.

<sup>(iii)</sup> At 1 January 2016, Ellex France SARL merged with Ellex Europe SARL and is no longer in existence.

## Notes to the financial statements

**25. Subsidiaries** continued

The Statement of profit or loss and other comprehensive income and Statement of financial position of the entities party to the deed of cross guarantee is as follows:

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Statement of comprehensive income</b>		
Revenue	50,195	42,804
Other income	143	982
Loss on sale of property, plant and equipment	-	(11)
Raw materials and consumables used	(29,579)	(22,489)
Employee benefits expense	(7,402)	(8,022)
Depreciation and amortisation expense	(2,059)	(1,575)
Impairment expense	(355)	-
Legal fees	(313)	(333)
Advertising and marketing	(1,360)	(1,117)
Finance costs	(200)	(184)
Product development	(1,367)	(797)
Rent/lease expense	(1,175)	(941)
Foreign currency translation movement	365	543
Other expenses	(4,225)	(5,158)
<b>Profit before income tax</b>	<b>2,668</b>	<b>3,702</b>
Income tax (expense)	(759)	(832)
<b>Profit for the year</b>	<b>1,909</b>	<b>2,870</b>

## Notes to the financial statements

## 25. Subsidiaries continued

	Consolidated Group	
	2016 \$'000	2015 \$'000
<b>Statement of financial position</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,545	2,552
Trade and other receivables	12,283	11,282
Inventories	10,926	9,987
Other	1,145	630
<b>Total current assets</b>	<b>30,899</b>	<b>24,451</b>
<b>Non-current assets</b>		
Trade and other receivables	21,099	16,891
Property, plant and equipment	6,505	2,134
Deferred tax assets	2,637	3,314
Other intangible assets	799	874
Capitalised development expenditure	12,136	11,267
<b>Total non-current assets</b>	<b>43,176</b>	<b>34,480</b>
<b>Total assets</b>	<b>74,075</b>	<b>58,931</b>
<b>Current liabilities</b>		
Trade and other payables	6,619	3,695
Borrowings	5,560	5,750
Provisions	2,247	2,270
<b>Total current liabilities</b>	<b>14,426</b>	<b>11,715</b>
<b>Non-current liabilities</b>		
Borrowings	2,142	174
Provisions	104	-
<b>Total non-current liabilities</b>	<b>2,246</b>	<b>174</b>
<b>Total liabilities</b>	<b>16,672</b>	<b>11,889</b>
<b>Net assets</b>	<b>57,403</b>	<b>47,042</b>
<b>Equity</b>		
Issued capital	46,043	41,229
Reserves	1,246	(2,392)
Retained earnings	10,114	8,205
<b>Total equity</b>	<b>57,403</b>	<b>47,042</b>

## Notes to the financial statements

### 26. Segment information

Each of these operating segments is managed separately as each of these sales lines require different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

#### **Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of distribution channels since the diversification of the Group's operations inherently has notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

#### **Types of products and services by segment**

##### ***Distributors***

The Distributors segment sells ophthalmic medical equipment to independent third-party distributors globally. All revenues are aggregated as one reportable segment as the products are similar in nature, have the same types of customers and are subject to a similar regulatory environment. The distributor business is managed by a separate sales team and supported by the manufacturing site.

##### ***Direct***

The Direct segment sells ophthalmic medical equipment to the end-user customer in various markets around the world. All revenues are aggregated, as one reportable segment as the products are similar in nature, have the same types of customer and are subject to a similar regulatory environment. The direct business is managed by the regional managers where a direct business is situated.

#### **Basis of accounting for purposes of reporting by operating segments**

##### ***Accounting policies adopted***

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

##### ***Segment assets***

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

##### ***Segment liabilities***

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

## Notes to the financial statements

## 26. Segment information continued

**Unallocated items**

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of intangibles;
- income tax expense;
- deferred tax assets and liabilities; and
- intangible assets

	Distributors \$'000	Direct \$'000	Total \$'000
<b>Year ended 30 June 2016</b>			
<b>Revenue</b>			
External sales	21,859	51,054	72,913
<b>Total segment revenue</b>	<b>21,859</b>	<b>51,054</b>	<b>72,913</b>
<b>Segment net profit before tax</b>	<b>4,769</b>	<b>7,264</b>	<b>12,033</b>
<i>Reconciliation of segment result to group net profit before tax</i>			
Amounts not included in segment result:			
• Depreciation, amortisation and impairment expense			(3,503)
Unallocated items:			
• Corporate costs, quality and service charges			(3,963)
• Finance costs			(524)
• Interest and other revenue			147
<b>Net profit before tax from continuing operations</b>			<b>4,190</b>
<b>RESTATED *</b>			
<b>Year ended 30 June 2015</b>			
<b>Revenue</b>			
External sales	15,648	47,031	62,679
<b>Total segment revenue</b>	<b>15,648</b>	<b>47,031</b>	<b>62,679</b>
<b>Segment net profit before tax</b>	<b>2,603</b>	<b>6,199</b>	<b>8,802</b>
<i>Reconciliation of segment result to group net profit before tax</i>			
Amounts not included in segment result:			
• Depreciation and amortisation			(2,532)
Unallocated items:			
• Corporate costs, quality and service charges			(3,477)
• Finance costs			(438)
• Interest revenue			276
<b>Net profit before tax from continuing operations</b>			<b>2,631</b>

## Notes to the financial statements

## 26. Segment information continued

	Distributors \$'000	Direct \$'000	Total \$'000
<b>Year ended 30 June 2015</b>			
<b>Revenue</b>			
External sales	17,782	44,897	62,679
<b>Total segment revenue</b>	<b>17,782</b>	<b>44,897</b>	<b>62,679</b>
<b>Segment net profit before tax</b>	<b>4,965</b>	<b>7,962</b>	<b>12,927</b>
<i>Reconciliation of segment result to group net profit before tax</i>			
Amounts not included in segment result:			
• Depreciation and amortisation			(2,532)
Unallocated items:			
• Corporate costs, quality and service charges			(8,029)
• Finance costs			(438)
• Other income			703
<b>Net profit before tax from continuing operations</b>			<b>2,631</b>

\* During the period there has been a review of items not allocated to an operating segment. Following this review it was identified that certain items within Corporate costs, quality and service charges should be allocated to an operating segment. The 30 June 2015 segment performance has been restated for the change in allocation of these items.

## Notes to the financial statements

## 26. Segment information continued

## (a) Segment assets

	Distributors \$'000	Direct \$'000	Total \$'000
<b>Year ended 30 June 2016</b>			
Segment assets – opening	16,038	22,072	38,110
Segment asset charges for the period:			
Net movement in inventories and receivables	7,747	5,685	13,432
<b>Total segment assets</b>	<b>23,785</b>	<b>27,757</b>	<b>51,432</b>
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			4,776
Capitalised development expenditure			11,579
Intangibles			4,093
<b>Total group assets</b>			<b>71,990</b>
<b>Year ended 30 June 2015</b>			
Segment assets – opening	15,059	18,858	33,917
Segment asset charges for the period:			
Net movement in inventories and receivables	979	3,214	4,194
<b>Total segment assets</b>	<b>16,038</b>	<b>22,072</b>	<b>38,110</b>
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			5,791
Capitalised development expenditure			10,710
Intangibles			4,369
<b>Total group assets</b>			<b>58,980</b>

## (b) Segment liabilities

	Distributors \$'000	Direct \$'000	Total \$'000
<b>Year ended 30 June 2016</b>			
Segment liabilities	20,277	3,456	23,733
<b>Year ended 30 June 2015</b>			
Segment liabilities	15,301	3,885	19,186

## Notes to the financial statements

**26. Segment information** continued**(c) Revenue by geographical region**

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

	2016 \$'000	2015 \$'000
Australia	8,656	11,812
United States of America	25,967	20,486
Europe/Middle East	17,030	15,343
Japan	10,776	8,445
Asia	8,474	4,373
South America and other	2,010	2,220
<b>Total revenue</b>	<b>72,913</b>	<b>62,679</b>

**(d) Assets by geographical region**

The location of segment assets is disclosed below by geographical location of the assets:

	2016 \$'000	2015 \$'000
Australia	42,272	34,725
United States of America	13,630	14,401
Europe/Middle East	6,099	2,725
Japan	9,989	7,129
<b>Total assets</b>	<b>71,990</b>	<b>58,980</b>

**(e) Major customers**

The Group has a number of customers to which it provides both products and services. The Group supplies one single external customer in the Direct segment which accounts for 6% of external revenue (2015: 6%).

The Group supplies one single external customer in the distributor segment which accounts for 18% of external revenue (2015: 11.1%).

## Notes to the financial statements

### 27. Related party disclosures

#### (a) Equity interests in related parties

##### Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 25 to the financial statements.

#### (b) Transactions between Ellex Medical Lasers Limited and its related parties

The following balances arising from transactions between the Company and its other related parties are outstanding at reporting date:

- Loan totalling \$8,370 thousand (2015: \$6,843 thousand) are receivable from subsidiaries which have been eliminated on consolidation.

##### Transactions between the Group and its related parties

During the financial year ended 30 June 2016, the following transactions occurred between the Group and its other related parties:

- Interest payments of \$150 thousand (2015: \$240 thousand) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 3% (2015: 1.5%). Interest is payable annually.
- Sales between the subsidiaries totalled \$31,125 thousand (2015: \$18,646 thousand) during the year. The increase in subsidiary sales came from the EMEA region distributor invoicing relocating from Ellex Medical Pty Ltd to Ellex Europe Services SARL. Payment terms are 60 days.
- Management fees were charged between subsidiaries of \$2,251 thousand (2015: \$2,962 thousand) during the year for management, accounting, marketing and communication support.
- Rental and outgoing expenses of \$41 thousand (2015: nil) were incurred with YourAmigo Limited, an Independent Director related entity.

#### (c) Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated group is set out below:

	Consolidated Group	
	2016 \$'000	2015 \$'000
Short term employee benefits	563	539
Post-employment benefits	51	41
Share based payments	50	44
	<b>664</b>	<b>624</b>

## Notes to the financial statements

### 28. Cash flow information

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

#### (a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is reconciled to the related items in the statement of financial position:

	Consolidated Group	
	2016 \$'000	2015 \$'000
Cash and cash equivalents	7,283	4,593
Bank overdraft (note 15)	-	-
	<b>7,283</b>	<b>4,593</b>

## Notes to the financial statements

## 28. Cash flow information continued

## (b) Financing facilities

	Consolidated Group	
	2016 \$'000	2015 \$'000
Overdraft facility		
• amount used (note 15)	-	-
• amount unused	-	1,500
	-	<b>1,500</b>
Equipment finance and finance advance (insurance premium)		
• amount used (note 15)	196	184
• amount unused	-	-
	<b>196</b>	<b>184</b>
WBC finance facility		
• amount used (note 15)	-	4,933
• amount unused	-	1,300
	-	<b>6,233</b>
Commercial Bill line		
• amount used (note 15)	-	581
• amount unused	-	-
	-	<b>581</b>
ANZ finance facility		
• amount used	5,118	-
• amount unused	4,882	-
	<b>10,000</b>	<b>-</b>
Mortgage ANZ		
• amount used	2,067	-
• amount unused	-	-
	<b>2,067</b>	<b>-</b>
Loan fit-out facility ANZ		
• amount used	-	-
• amount unused	3,933	-
	<b>3,933</b>	<b>-</b>
Other facilities		
• amount used (note 15)	465	420
• amount unused	715	130
	<b>1,180</b>	<b>550</b>

The entity entered into a new financing agreement during the year (see note 15)

## Notes to the financial statements

## 28. Cash flow information continued

## (c) Reconciliation of profit for the year to net cash flows from operating activities

	Consolidated Group	
	2016 \$'000	2015 \$'000
Profit for year	3,027	1,680
Depreciation and amortisation of non-current assets	3,148	2,532
Impairment expense	355	-
Loss/(Profit) on disposal of property, plant and equipment	(35)	28
Interest income received and receivable	-	4
Implied interest on earn out	324	238
Forecast accrual for earn out	190	-
Tax on share issue	82	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
• Current receivables	(3,246)	(348)
• Decrease/(increase) in tax balances	1,044	(652)
• Current and non-current inventories	(2,955)	658
• Other assets	511	598
• Current payables	2,616	558
• Other current and non-current liabilities	155	1,594
<b>Net cash from operating activities</b>	<b>5,216</b>	<b>6,890</b>

## 29. Financial instruments

The consolidated group enters into derivative financial instruments from time to time to manage its exposure to foreign exchange rate risk.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, commercial bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
<b>Financial assets</b>			
Cash and cash equivalent	28(a)	7,283	4,593
Receivables	7	15,737	12,446
<b>Total financial assets</b>		<b>23,020</b>	<b>17,039</b>
<b>Financial liabilities</b>			
Trade and other payables	14	11,591	9,109
Borrowings	15	8,169	6,757
<b>Total financial liabilities</b>		<b>19,760</b>	<b>15,866</b>

## Notes to the financial statements

### 29. Financial instruments continued

#### (a) Capital risk management

The consolidated group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance.

The capital structure of the consolidated group consists of debt, which includes the borrowings disclosed in note 15, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 18, 19 and 20 respectively. The consolidated group operates globally, primarily through subsidiary companies established in the markets in which the consolidated group trades. None of the subsidiary companies are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand manufacturing facilities and distribution assets, as well as make routine out flows of tax and repayment of maturing debt. The consolidated group's policy is to manage debt and equity centrally, using capital market issues and borrowing facilities to meet anticipated funding requirements.

#### Externally imposed capital requirements

The following financial covenants apply at all times to the group and are tested with respect to the twelve month period prior to the test date:

- Interest cover ratio  $\geq 3.00x$ ;
- Gearing ratio is  $\leq 0.6$ ;
- Borrowing base ratio  $\leq 100\%$ ;

#### (b) Financial risk management objectives

The requirements are monitored on a continual basis and form part of the regular management and Board reporting.

The Audit & Risk Committee Group reviews the treasury function of the consolidated group to provide services to the business, coordinate access to domestic and international financial markets, and manage the financial risks relating to the operations of the consolidated group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated group's policies approved by the Board of Directors and Audit & Risk Committee, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the management on a continuous basis. During the financial year 2010, the Board of Directors minuted that all future foreign currency hedging is to be approved by the Board before proceeding.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income 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.

#### (c) Categories of financial instruments

The categories of financial instruments are identified in the Statement of Financial Position and notes thereto.

#### (d) Loans and receivables designated as a 'fair value through profit or loss'

There were no loans and receivables designated as at 'fair value through profit or loss' in 2016 or 2015.

## Notes to the financial statements

### 29. Financial instruments continued

#### (e) Market risk

The consolidated group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. From time to time, the consolidated group enters into collar options to hedge the exchange rate risk arising on the sale of ophthalmic equipment in foreign currencies.

For financial year 2016, a collar option for USD and YEN were considered by Management and the Board with the outcome of deciding not to proceed and manage the 'net' \$ exposure by spot rates.

At the consolidated group and Company level market risk exposures are measured using sensitivity analysis. There has been no change in the consolidated group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

#### (f) Foreign currency risk management

The consolidated group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The board of directors approves foreign currency risk management procedures that are applied.

The nature of the consolidated group's exposure to foreign currency risks and the circumstances in which they arise is as follows:

- Price lists
- Inventory holdings in off-shore warehouses

The consolidated group issues some price lists for its products in foreign currency, generally set in terms of its annual budgeted exchange rate.

- Sales and purchases in foreign currency

The consolidated group's major exposure arises from the export of products in foreign currency to off shore locations such as USA, Europe, Asia and Japan and the import of raw materials also denominated in foreign currency. The consolidated group strives to offset as much of this exposure within its capacity of a natural hedge, and manage the net exposure.

The objectives, policies and processes for managing foreign currency risk and the methods used to measure the risk are as follows:

##### Objective

The objective of the consolidated group's foreign currency risk policy is to seek to minimise the volatility associated with foreign currency rates and deliver AUD cash flows with as much certainty as possible.

##### Policy and processes

The management of the consolidated group's foreign exchange risk is a two-stage process. The first is to assess the degree of natural hedge (offset purchases against receipts in same currencies) and then, if considered practical, to manage the 'net' exposure.

##### Natural Hedge

The consolidated group identifies any natural hedge that arises as a result of purchases/outflows denominated in the foreign currency which are able to be offset against sales/inflows received.

Timing differences between the inflows and outflows are managed using the following techniques:

- Foreign Currency Deposit Accounts - to store surplus funds from time-to-time;
- Foreign Currency Loans - where working capital requirements are drawn from time-to-time and repaid with foreign currency receipts.
- Non-AUD cashflows are monitored for any surplus funds or shortfalls.

## Notes to the financial statements

## 29. Financial instruments continued

**Interim policy**

The carrying amount of the consolidated group's foreign currency denominated monetary assets and monetary liabilities at reporting date is as follows:

	Liabilities		Assets	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
US dollars	4,343	3,725	9,382	5,416
Japanese Yen	3,446	1,364	6,163	4,262
Euro	810	(59)	3,226	2,059

**Foreign currency sensitivity analysis**

The consolidated group is mainly exposed to USA dollars, Euro and Japanese Yen.

The following table details the consolidated group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currency. 10% represents management's assessment of the possible change in foreign currency rates within a reasonable period of time. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in the currency rates. The sensitivity includes external loans. A positive number indicates an increase in profit or loss and other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity.

	Euro Impact Consolidated		USD Impact Consolidated		Japanese Yen Impact Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Profit or loss	219	192	458	458	247	263

The exposures are mainly attributable to foreign currency denominated receivables, payables, cash and loans.

**(g) Interest rate risk management**

The consolidated group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

The sensitivity analysis below has been determined based upon exposures to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 100 basis points (2015: 100 basis points) higher or lower and all other variables were held constant, the consolidated group's net profit after tax would increase by \$19 thousand and decrease by \$19 thousand (2015: increase by \$10 thousand and decrease by \$10 thousand). This is attributable to the consolidated group's exposure to interest rates on its variable rate borrowings.

The consolidated group's sensitivity to interest rates has increased during the current period mainly due to an increase in borrowings.

## Notes to the financial statements

### 29. Financial instruments continued

#### (h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated group. The consolidated group has adopted a global policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually. The consolidated group measures credit risk on a fair value basis.

Trade accounts receivable consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit reference check is conducted for the debtor.

The consolidated group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

#### (i) Fair value of financial statements

The carrying amount of all financial assets and liabilities approximate their fair value.

#### (j) Liquidity risk management

The consolidated group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 29(b) is a listing of undrawn facilities that the consolidated group has at its disposal to further reduce liquidity risk.

## Notes to the financial statements

## 29. Financial instruments continued

## (k) Maturity profile of financial instruments

The following tables detail the consolidated group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the expected cash flows of financial liabilities based on the earliest date on which the consolidated group can be required to pay. The tables include both interest and principal cash flows.

2016	Average interest rate	Less than 1 month \$'000	Interest rate maturity			5+ years \$'000	Total \$'000
			1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000		
<b>Financial liabilities</b>							
Finance lease	5.17%	10	20	87	348	-	465
Finance advance	3.30%	25	50	121	-	-	196
Trade payables	-	3,622	1,424	220	-	-	5,266
Other payables	-	146	3,049	547	1,804	724	6,270
Payable to directors	-	55	-	-	-	-	55
Kansai loan	1.50%	36	25	113	149	-	323
Debtor finance facility	1.66%	991	3,564	564	-	-	5,119
Mortgage for building	2.96%	-	-	175	1,892	-	2,067
		<b>4,885</b>	<b>8,132</b>	<b>1,827</b>	<b>4,193</b>	<b>724</b>	<b>19,761</b>

2015	Average interest rate	Less than 1 month \$'000	Interest rate maturity			5+ years \$'000	Total \$'000
			1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000		
<b>Financial liabilities</b>							
Commercial bills	3.30%	-	187	394	-	-	581
Finance lease	6.56%	10	21	96	288	-	415
Finance advance	3.30%	23	46	115	-	-	184
Trade payables	-	3,468	93	-	-	-	3,561
Other payables	-	-	2,206	631	2,085	577	5,499
Payable to directors	-	49	-	-	-	-	49
Kansai loan	1.70%	28	55	243	267	-	593
Debtor finance facility	1.90%	1,062	3,429	455	-	-	4,946
		<b>4,640</b>	<b>6,037</b>	<b>1,934</b>	<b>2,640</b>	<b>577</b>	<b>15,828</b>

## Notes to the financial statements

**30. Parent entity information**

The financial information for the parent entity, Ellex Medical Lasers Limited, has been prepared on the same basis as the consolidated financial statements except for that outlined below.

	Parent Entity	
	2016 \$'000	2015 \$'000
<b>Statement of financial position</b>		
Total current assets	3,950	1,562
Total non-current assets	35,737	34,853
<b>Total assets</b>	<b>39,687</b>	<b>36,415</b>
Total current liabilities	(206)	(170)
Total non-current liabilities	-	-
<b>Total liabilities</b>	<b>(206)</b>	<b>(170)</b>
Share capital	46,043	41,231
General reserves	(1,804)	(1,800)
Accumulated (loss)	(4,758)	(3,186)
<b>Total equity</b>	<b>39,481</b>	<b>36,245</b>
<b>Statement of profit or loss and other comprehensive income</b>		
(Loss)/profit for the year	(1,572)	(1,534)
<b>Total Comprehensive Income</b>	<b>(1,572)</b>	<b>(1,534)</b>

Except for those noted below, our accounting policies for the Ellex entity are consistent with those for the Ellex Group:

- Under tax funding arrangements, amounts receivable (or payable) recognised by the Ellex Group for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non-current assets above, are recorded at cost less impairment of the investment value. Refer to note 25 for details on investments in controlled entities.

**(a) Property, plant and equipment commitments**

Contractual commitments for the acquisition of property, plant or equipment as at 30 June 2016 are \$760 thousand (2015: nil).

**(b) Contingent liabilities and guarantees**

There is a bank guarantee for \$360 thousand held with Australian and New Zealand Banking Group Limited (2015: nil).

**(c) Indemnities, performance guarantees and financial support**

Ellex Medical Lasers Limited has provided a corporate guarantee and indemnity up to the total borrowings of the general security agreement.

## Notes to the financial statements

**31. Remuneration of auditors**

	Consolidated Group	
	2016 \$'000	2015 \$'000
Auditor of the parent entity		
Audit or review of the financial report		
• Grant Thornton	108,000	108,000
	<b>108,000</b>	<b>108,000</b>

The auditors of Ellex Medical Lasers Limited is Grant Thornton Audit Pty Ltd (2015: Grant Thornton Audit Pty Ltd).

There were no non-audit services provided in 2016 (2015: there were no non-audit services provided).

**32. Events after reporting date**

On 13 July 2016 a new entity Ellex Hong Kong Limited was established. The entity is 100% owned by Ellex Medical Pty Ltd.

No other matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the Group, the results of the operations or the state of affairs of the group in future financial years.

## Directors' Declaration

In the opinion of the Directors of Ellex Medical Lasers Limited:

- (a) The consolidated financial statements and notes of Ellex Medical Lasers Limited are in accordance with the Corporations Act 2001, including
  - i. Giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
  - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that Ellex Medical Lasers Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2016.

Note 1 confirms that the consolidated financial statements also comply with the International Financial Reporting Standards.

At the date of this declaration, the Group is within the class of companies affected by ASIC Class Order 98/1418.

The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee. In the Directors' opinion, these are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 26 to the financial statements, will as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors:



On behalf of the Directors

Victor Previn  
Chairman

Adelaide, 26 August 2016



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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELLEX MEDICAL LASERS LIMITED**

### **Report on the financial report**

We have audited the accompanying financial report of Ellex Medical Lasers Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion:

- a the financial report of Ellex Medical Lasers Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Ellex Medical Lasers Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



S K Edwards  
Partner – Audit & Assurance

Adelaide, 26 August 2016

## Number of holders of equity securities at the date of this report

### Ordinary share capital

- 114,146,897 fully paid ordinary shares are held by 3,540 individual shareholders.

All issued shares carry one vote per share.

### Distribution of holders of equity securities

Range	Total Holders
1 – 1,000	1,210
1,001 – 5,000	816
5,001 – 10,000	493
10,001 – 100,000	883
100,001 and over	138
	<b>3,540</b>
Holding less than a marketable parcel	976

### Substantial shareholders

Ordinary Shareholders	Fully Paid	
	Number	Percentage
National Nominees Limited	12,020,301	10.53
Sedico Pty Ltd	9,316,031	8.20
Pine Street	6,300,000	5.52

## Twenty largest holders of quoted equity securities at the date of this report

Ordinary Shareholders	Fully Paid	
	Number	Percentage
National Nominees Limited	12,020,304	10.53
Sedico Pty Ltd	9,316,031	8.20
Pine Street	6,300,000	5.52
Ruminator Pty Ltd	5,062,008	4.43
JP Morgan Nominees Australia Limited	3,928,958	3.44
Canala Super Fund Pty Ltd (Giuseppe Canala S/F A/C)	2,621,928	2.30
Citicorp Nominees Pty Limited	2,395,220	2.10
RBC Investor Services Australia Nominees Pty Limited (BKCUST A/C)	2,289,368	2.01
Moat Investments Pty Ltd (Moat Investment A/C)	1,352,090	1.18
Gwynvill Trading Pty Ltd	1,200,000	1.05
Unley Underwriters Pty Limited	1,107,424	0.97
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan (Buchanan Super Fund A/C)	1,025,000	0.90
Forsyth Barr Custodians Ltd (Forsyth Barr Ltd-Nominee A/C)	1,008,516	0.88
HSBC Custody Nominees (Australia) Limited	990,750	0.87
Mr Rahmon Charles Coupe + Mrs Julia Deborah Coupe (Super Fund A/C)	974,900	0.85
Five Talents Limited	963,607	0.84
BNP Paribas Noms (NZ) Ltd (DRP)	690,000	0.60
Nurragi Investments Pty Ltd	650,000	0.57
BT Portfolio Services Limited	600,192	0.53
Anacacia Pty Ltd	593,202	0.52
	<b>55,089,498</b>	<b>48.26</b>





## Corporate Directory

### Directors

**Victor Previn** B Eng  
(Executive Chairman)

**Alex Sundich** BEc, MComm, ACA, FFINSIA  
(Non-Executive Director)

**Giuseppe Canala** BTECH, BA, FAICD  
(Independent Director)

**Rahmon Coupe** B Eng (Hons)  
(Independent Director)

**Meera Verma** PhD, FTSE, FAICD  
(Independent Director)

### Company Secretary

**Maria Maieli** CPA, MPACC, AGIA

### Auditors

**Grant Thornton Audit Pty Ltd**  
Level 1, 67 Greenhill Road  
Wayville SA 5034

### Legal Advisors

**Laity Morrow Pty Ltd**  
Level 1, 50 Pirie Street  
Adelaide SA 5000

### Share Registry

**Computershare Investor Services Limited**  
Level 5, 115 Grenfell Street  
Adelaide SA 5000  
GPO Box 1903  
Adelaide SA 5001

Enquiries within Australia: 1300 556 161  
Enquiries outside Australia: +61 3 9415 4000  
Email [webenquiries@computershare.com.au](mailto:webenquiries@computershare.com.au)  
[www.computershare.com](http://www.computershare.com)

### Stock Exchange

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

**ASX Code**  
ELX - Ordinary Shares

### Registered Office

**Ellex Medical Lasers Limited**  
ABN 15 007 702 927  
82 Gilbert Street  
Adelaide SA 5000  
Telephone +61 8 8104 5200  
Facsimile +61 8 8104 5231  
[www.ellex.com](http://www.ellex.com)

## Global sales and service

### Headquarters

**Australia**  
82 Gilbert Street  
Adelaide SA, 5000  
AUSTRALIA  
+61 8 8104 5200

### Japan

3F, 3-2-22 Harumi Chuo-ku  
Tokyo 104-0053 JAPAN  
+81 3 5859 0470

### USA

7138 Shady Oak Road  
Minneapolis, MN, 55344 USA  
800 824 7444

### Germany

ZPO floor 1, Carl-Scheele-Str.16  
12489 Berlin GERMANY  
+49 30 6392896 00

### France

La Chaufferie - 555 chemin du bois  
69140 Rillieux la Pape FRANCE  
+33 4 8291 0460



