SHARPENING OUR FOCUS

From the Ellex Chairman

To Our Shareholders,

The financial year 2008 presented a unique set of challenges for Ellex. We have seen a marked change in the global economic environment and this has directly affected our market. This, along with strong competition, meant our result was not in line with the Board's or shareholders' expectations.

Under the leadership of our new CEO, Kevin McGuinness, management is taking steps to ensure that we can meet the challenges of the changing environment. Our focus is on improving operational performance to drive improved earnings and cash flow in financial year 2009.

In the past year, we took our first steps in establishing a new direct sales channel in the United States, the largest market for our products. Our existing direct sales in Japan and Australia continue to strengthen and our distribution in Europe continues to perform very well. This distribution platform represents a key strategic asset for our business.

Our products continue to set the pace for innovation in the ophthalmic device industry. We invested approximately 8 percent of revenue in research and development during the financial year, with specific activities including the Ellex 2RT (Retina Regeneration Therapy) initiative, the development of a new photocoagulator and further improvements to the Eye Cubed ultrasound product. These projects will continue to be a focus in financial year 2009.

In October 2007 we welcomed Professor John Marshall and Kevin McGuinness to the Board of Directors. Both appointments have strengthened our Board. Mr. Peter Falzon, who joined Ellex as CEO in March 2005, left in June 2008. Under Mr. Falzon's leadership, Ellex transitioned from an original equipment manufacturer (OEM) to one of the leading brands in the ophthalmic laser and ultrasound market, and established a platform for future growth. On behalf of the Board I would like to thank Peter for his contribution.

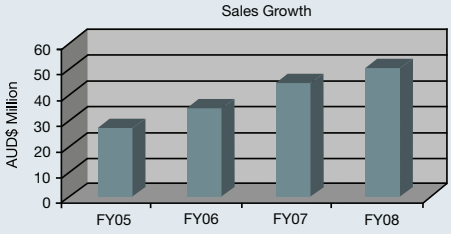
Victor Previn
Chairman

From the Ellex CEO

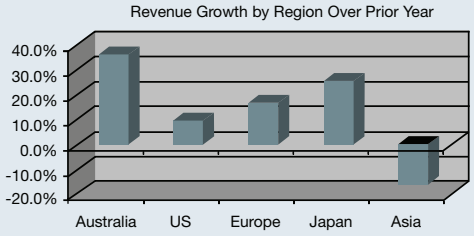
Dear Shareholder,

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

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

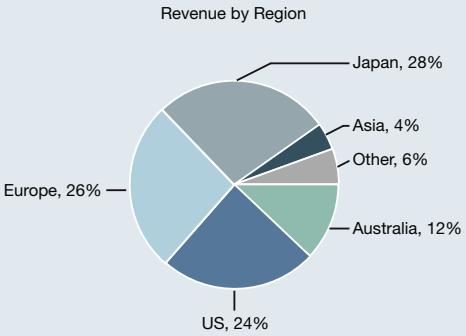


A significant focus of our business during the financial year was the transition to a direct sales channel in the United States. This is the single largest market opportunity for our products and as such, it is critical that Ellex develop a strong sales channel to support our future growth plans. Today,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



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

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



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

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

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

Kevin McGuinness
Chief Executive Officer

2008 ANNUAL REPORT

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Corporate Directory

Directors

Victor Previn	BE (Executive Chairman)
Alex Sundich	BEc, MComm, ACA, ASIA (Non Executive Director)
Kevin McGuinness	BAA, ACA (Group Chief Executive Officer)
John Marshall	Professor (Non Executive Director)

Company Secretary

Anthony Mitchell BEc, CPA, MBA

Registered Office

Ellex Medical Lasers Limited
ABN 15 007 702 927
82 Gilbert Street
Adelaide South Australia 5000

Telephone	+61 8 8104 5200
Facsimile	+61 8 8221 5651

Auditors

Deloitte Touche Tohmatsu
11 Waymouth Street
Adelaide South Australia 5000

Legal Advisors

Thomson Playford
101 Pirie Street
Adelaide South Australia 5000

Share Registry

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

GPO Box 1903
Adelaide SA 5001

Enquiries within Australia	1300 556 161
Enquiries outside Australia	+61 3 9415 4000
Email	webenquiries@computershare.com.au
Website	www.computershare.com

Website

www.ellex.com

Stock Exchange

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

ASX Code

ELX - Ordinary Shares

Annual General Meeting

Tuesday, 25th November, 2008
1st Floor
82 Gilbert Street
Adelaide South Australia 5000

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Annual Financial Report for the financial year ended 30 June 2008

Corporate Governance Statement

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

Board of Directors and its Committees

Role of the Board

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

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

Board Process

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

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

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

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

Composition of the Board

The names of the directors of the Company in office at the date of this Statement are set out in the directors' report on page 10 of this financial report.

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

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

Given the size of the organisation a small Board is considered appropriate. As such, compliance with all aspects of ASX Corporate Governance Best Practice is not practical. This will be reviewed by the Board continuously in light of growth and capacity of the organisation.

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated entity are set out in Note 31 to the financial statements.

Nomination Committee

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

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

Director Education

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

Dealings in Company Shares

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

- For the period from 31 December until release of the half year result to the Australian Stock Exchange ("ASX"), and from 30 June to the release of the Company's annual results to the ASX; or
- At any time whilst in possession of non-public price sensitive information.

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

The policy is reviewed periodically and disclosed in the Annual Report each year.

Independent Professional Advice and Access to Company Information

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

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer, senior executives and directors themselves. The Committee evaluates the performance of the Chief Executive Officer and monitors management succession planning. It is also responsible for share option schemes, incentive performance packages, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the Remuneration Committee during the year were:

Mr V Previn – Executive Director

Mr A Sundich – Non-Executive Director (Chairman of Remuneration Committee)

Given the size and structure of the Company's Board, the directors have formed the view that it is appropriate for the Remuneration Committee to comprise only two members, that an executive director be a member of the committee and that a majority of the members not be independent directors. A formal charter for the Remuneration Committee is currently under development.

The Committee meets as required and met once during the year. The Chief Executive Officer is invited to meetings as required but does not attend meetings involving matters pertaining to him.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Committee obtains independent advice on the appropriateness of senior executive remuneration packages, given trends in comparative companies both locally and internationally.

Further details of directors' remuneration, superannuation and retirement payments are set out in the directors' report.

Audit Committee

The Audit Committee has a documented Charter, approved by the Board. The Chairman must be a non-executive director. The Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during and since the end of the year were:

Mr V Previn – Executive Director

Mr A Sundich – Non-Executive Director (Chairman of Audit Committee)

Given the size and structure of the Company's Board, the directors have formed the view that it is appropriate for the Audit Committee to comprise only two members, that an executive director be a member of the committee and that a majority of the members not be independent directors.

The external auditors, the Chief Executive Officer and Chief Financial Officer, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met twice during the year.

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

The Audit Committee also conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner. The Charter is reviewed periodically and a summary is disclosed in the Annual Report each year and is available to members on request.

The responsibilities of the Audit Committee include:

- Reviewing the annual and half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles
- Monitoring corporate risk assessment processes
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence
- Reviewing the nomination and performance of the external auditor
- Monitoring the establishment of an appropriate internal control framework and appropriate ethical standards
- Monitoring the companies control framework for the prevention of fraud and whether prompt and appropriate action is taken to rectify any deficiencies or breakdowns
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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

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

Internal Control Framework

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

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

Internal Audit

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

Australian Quality Standard AS/NZS ISO 13485-2003

The consolidated entity strives to ensure that its products are of the highest standard. Towards this aim it has undertaken a program to achieve AS/NZS ISO 13485-2003 accreditation for each of its business segments.

Business Risk Management

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

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

Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue within employees and senior management. A succession plan is also in place to ensure senior positions are filled by competent and knowledgeable employees when retirements or resignations occur.

Further details of the Company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in Note 33 to the financial statements.

Comprehensive practices are established such that:

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

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively in all material respects.

Corporate Governance Statement

Financial reporting

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies of the Board.

Quarterly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Ethical Standards

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

Code of conduct

The consolidated entity has advised each director, manager and employee that they must comply with the Corporate Governance Policy, the Management Authorities & Delegations Policy and the Code of Conduct, as detailed in the Employee Handbook, which outline the ethical standards required. The policies cover the following:

- Aligning the behaviour of the Board and management by maintaining appropriate core Company values and objectives
- Fulfilling responsibilities to shareholders by delivering shareholder value
- Usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure
- Fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced
- Employment practices such as occupational health and safety, employment opportunity, the community activities, sponsorships and donations
- Responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution
- Compliance with legislation including policies on legal compliance in countries where the legal systems and protocols are significantly lower than Australia's
- Conflicts of interest
- Corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain
- Confidentiality of corporate information
- Fair dealing
- Protection and proper use of the Company's assets
- Compliance with laws
- Reporting of unethical behaviour.

These policies are reviewed periodically and a summary is disclosed in the Annual Report each year.

Shareholder Communications

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

- The Annual General Meeting provides a forum for all shareholders to interact with directors on activities of the Company
- The full annual report is distributed to all shareholders who request a copy and it includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments. The full annual report is also available on the Company's website
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and is sent to any shareholder who requests it
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders
- Any information which the Board considers worthy of disclosure to shareholders is activated by release to the ASX, in accordance with continuous disclosure obligations.

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

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

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

Directors' Report

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2008. 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:

Directors

Name	Particulars
Victor Previn Chairman	Victor Previn is 50 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor is currently an Executive Technical Director who has considerable experience in the ophthalmic laser industry and was one of the original founders and shareholders of Ellex.
Peter J Falzon	Peter Falzon is 45 years old and was appointed a director on 26 November 2002 and Chief Executive Officer on 1 March 2005. Peter ceased employment as Chief Executive Officer on 25 June 2008 and resigned as a director on 24 July 2008.
Kevin McGuinness	Kevin McGuinness is 41 years old and was appointed Chief Executive Officer on 26 June 2008. Kevin commenced as Chief Financial Officer/Company Secretary in October 2002 until April 2006, when he was appointed Chief Operating Officer in addition to his existing roles until June 2008. Kevin was also appointed as a director on 11 October 2007. Kevin is a Chartered Accountant with 7 years experience with Deloitte Touche Tohmatsu in both Australia and the UK and over 18 years senior financial management experience in public and privately owned companies.
Alex Sundich	Alex Sundich is 44 years old and was appointed a non-executive director on 22 July 2005. Alex is currently a senior executive of Mariner Financial Ltd. Prior to this, Alex was CFO of Record Investments Limited and was previously an investment banker involved in Mergers & Acquisitions and capital raisings. He is currently a non-executive director of Eastern Star Gas Limited.
John Marshall	Professor John Marshall is 64 years old was appointed a non-executive director on 11 October 2007. Professor Marshall is currently Frost Professor of Ophthalmology of Guy's and St Thomas' Hospitals, University of London. Professor Marshall is also the Chairman of Ellex's Medical Advisory Board, and has over 40 years of ophthalmology experience. Professor Marshall also held the original patents on excimer laser refractive surgery.

The above named directors held office during and since the end of the financial year.

* Peter Falzon – ceased employment 25 June 2008 and resigned as a director on 24 July 2008.

Company Secretary

Anthony Mitchell	Tony Mitchell is 41 years old and was appointed Chief Financial Officer/Company Secretary on 3 March 2008. Tony is a CPA with over 20 years experience in commercial accounting and finance roles.

Principal activities

Ellex Medical Lasers Limited is a global leader in the design and manufacture of lasers and ultrasound systems used by ophthalmologists to diagnose and treat eye disease.

There were no significant changes in the nature of the activities of the Group during the year.

Review of operations

The consolidated profit for the year was $4.8 million. This compares to $4.4 million for FY07. Excluding one-off items, net profit after tax was $1.5 million compared to $2.5 million in FY07 year. The result for the year ended 30 June 2008 includes a previously unrecognised tax benefit of $3.7 million (as per note 5 of the financial report). Reported profit for FY07 included a tax benefit of $1.9 million relating to prior year tax losses in Japan being brought to account given this operation is now profitable.

The year ended 30 June 2008 saw Ellex achieve 13% growth in revenue, with strong growth in Australia (36%), Japan (25%) and Europe (17%). Growth in the USA of 10% was below expectations and was impacted by the poor economic environment and competitive activity.

While the result in the USA in FY08 was below expectations, the directors continue to view this market as a significant opportunity for the consolidated entity. During FY08 the initial transition to direct sales representatives for the US business was completed and six such representatives are now in place. In addition to these direct representatives, the US business continues to partner with a network of independent representatives in the remaining territories. No further direct representatives are planned until the business is achieving an appropriate return on the investments made to date.

Despite solid revenue growth, pre-tax profit for the FY08 year fell to $1.9 million compared with $2.8 million in FY07. Excluding one-off costs of $0.5 million, pre-tax profit for the year was $2.4 million. The fall was predominantly driven by an increased investment in Sales & Marketing activities that contributed to the revenue growth achieved, but did not deliver the level of growth that was expected. A significant portion of the increased investment in Sales & Marketing was directed to the US business and the directors expect this to result in improved performance from this business in FY09.

During the period the Company established a subsidiary in Germany to take advantage of the opportunities available in that market. Germany represents one of the largest ophthalmic markets in the world and the results achieved through our previous distributor have been below our expectations. The initial investment in the subsidiary will be modest, with initially only two staff, and it is expected to be profitable in a short period of time.

The Company continued to invest in new product development in FY08, with approximately 8% of revenue being directed to these activities. This was partially offset by revenue from R&D grants, resulting in net R&D expenditure of approximately 6% of revenue.

The focus of R&D activities in FY08 was the ongoing development of the Ellex 2RT (Retina Regeneration Therapy) technology, the development of a new photocoagulator and further improvements to the Eye Cubed ultrasound product.

The Company's key objective for FY09 is to restore profitability to an acceptable level through a more measured approach to business growth by refining the cost structure of the business to address the short-term market challenges. A product cost reduction program is in place to ensure products remain competitive and margins are protected and an increased focus on working capital management, particularly finished goods inventory, to improve short-term cash flow has been implemented.

Ellex will also continue to invest in product development with one major product release scheduled for FY09 and the ongoing development of the 2RT technology.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

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

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

Dividends

No dividend has been declared with respect to the year ended 30 June 2008 (30 June 2007: Nil).

Share options

Share options granted to directors and executives

During and since the end of the financial year there have been no share options granted to directors and executives of the Company and the consolidated entity as part of their remuneration.

Share options on issue at year end or exercised during the year

Details of unissued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Ellex Medical Lasers Limited	933,331	Ordinary	$0.30	30/09/2009
Ellex Medical Lasers Limited	199,998	Ordinary	$0.70	30/09/2009
Ellex Medical Lasers Limited	1,266,668	Ordinary	$0.40	30/09/2010
Ellex Medical Lasers Limited	1,333,336	Ordinary	$0.50	30/09/2011
Ellex Medical Lasers Limited	166,666	Ordinary	$0.90	30/09/2010

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or any other body corporate or registered scheme.

Details of shares or interests issued during the financial year to directors, executives and staff as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Ellex Medical Lasers Limited	66,666	Ordinary	$0.40	NIL
Ellex Medical Lasers Limited	66,666	Ordinary	$0.30	NIL

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.

On 9 July 2001, at an Extraordinary General Meeting, the Company passed a resolution to adopt a Deed of Access and Indemnity for the current directors.

On 30 January 2003, the Company signed a Deed of Access and Indemnity for Directors' V Previn, P Falzon and Company Secretary K McGuinness and subsequently the Company has executed a number of Deeds of Assumption to the original Deed in relation to the appointments of further directors and officers of the Company.

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.

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). During the financial year, eleven board meetings and two audit committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
V Previn	11	11	2	2	1	1
P Falzon	11	10	N/A	N/A	N/A	N/A
A Sundich	11	11	2	2	1	1
K McGuinness	8	8	N/A	N/A	N/A	N/A
J Marshall	8	5	N/A	N/A	N/A	N/A

* The number of meetings held during the period the relevant director held office.

Directors' shareholdings

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

Directors	Interests of Directors		Interests of Director Related Entities	
	Fully Paid Ordinary Shares	Options	Fully Paid Ordinary Shares	Options
V Previn	-	-	3,566,034	-
P Falzon	760,000	2,200,000	-	-
A Sundich	1,000,000	-	2,460,000	-
K McGuinness	398,333	666,667	105,000	-
J Marshall	50,000	-	-	-

Remuneration report

Remuneration policy for directors and executives

The Board reviews the remuneration packages of all directors and executives on an annual basis. Remuneration packages are reviewed with due regard to performance and other relevant factors.

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

Non-executive directors

Total remuneration for all non-executive directors, last voted on by shareholders at the 2001 AGM, is not to exceed $200,000 per annum and is set based upon advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently $20,000 per annum.

The Chairman receives the base fee plus $10,000 per annum, and an additional salary in his capacity as an executive. Director's fees cover all main Board functions but exclude membership of the Audit Committee. A fee of $5,000 per annum is payable for membership of the Audit Committee. 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 entity's diverse operations.

Remuneration and other terms of employment for executives are reviewed annually by the Board having regard to the individuals 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. Short term incentive payments are normally made by way of a cash bonus.

Long term incentives are provided as options over ordinary shares in the Company under the rules of the Director and Employee Share Option Plan, as approved by shareholders at an extraordinary meeting on 9 July 2001. The ability to exercise options may be conditional upon the achievement of certain performance hurdles which are designed to drive the financial performance of the consolidated entity and deliver shareholder value in the long term.

The Board has adopted the above performance-linked remuneration structure in order to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The Board considers that the performance-linked remuneration structure is working effectively.

There is no policy or monitoring of Key Management Personnel's (KMP) limiting their risk in relation to issued options.

The remuneration of KMP 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 on page 16 in relation to profit sharing and options for certain executives.

Service contracts

Remuneration and other terms of employment of the Chief Executive Officer and senior executives are formalised in service agreements. Major provisions of the agreements are set out below.

Kevin McGuinness – Chief Executive Officer

- Term of agreement – no fixed term
- Base salary of $275,000 inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of three months 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
- A short term incentive linked to achievement of profit targets on an annual basis to a maximum of $100,000 for the year to 30 June 2009. To be reviewed annually thereafter
- Long term incentive in the form of options over ordinary shares in the Company in line with the Ellex Incentive and Option Program.

All Other Executives (as listed below)

- Term of agreement – no fixed term
- Base salary inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of three months 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
- A short term incentive linked to achievement of profit targets on an annual or quarterly basis
- Long term incentive in the form of options over ordinary shares in the Company in line with the Ellex Incentive and Option Program.

Profit targets are defined as either Earnings Before Interest and Tax (EBIT) for the regional business unit managers or Profit Before Tax (PBT) for corporate executives. 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.

Director and executive details

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

- Victor Previn – Chairman
- Peter Falzon – Chief Executive Officer – ceased employment 25 June 2008 and resigned as a director on 24 July 2008
- Alex Sundich – Non-executive Director
- Kevin McGuinness – Executive Director from 11 October 2007 and Chief Executive Officer from 26 June 2008
- John Marshall – Non-executive Director – commenced 11 October 2007

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

- Bill Swaim – President, Ellex (USA) Inc
- Yukitaka Isoda – President, Ellex (Japan) Inc
- Anthony Mitchell – Chief Financial Officer/Company Secretary – commenced 3 March 2008
- Herbert Pummer – VP Operations – ceased 31 August 2007
- Richard Stone – VP Operations – commenced 29 October 2007
- Simon Luscombe – General Manager, Ellex Australia
- Anthony Stevens – VP Engineering
- Christine Warren – VP Sales Greater Europe

Elements of director and executive compensation

Compensation packages contain the following key elements:

a) Salary/fees
b) Benefits – including the provision of motor vehicle, superannuation and health benefits
c) Incentive schemes – including performance related bonuses and share options under the Directors' and Employee Share Option plan as disclosed in notes 6 to the financial statements.

Other than the amounts disclosed in the column for bonuses and equity-settled options, all other amounts are fixed as part of the executives remuneration.

Remuneration of directors and senior management

	Short term employee benefits			Post employment benefits		Share based payments		Other long term benefits	Total
	Cash salary & fees	Profit sharing & bonuses	Non-monetary benefits	Pension & super-annuation	Other	Equity settled - Options	Cash settled		
2008	$	$	$	$	$	$	$	$	$
Directors									
V Previn	141,000	-	-	12,690	-	-	-	-	153,690
J Marshall	15,000	-	-	-	-	-	-	-	15,000
P Falzon (i) (v)	380,995	13,944	11,257	6,693	2,139	6,400	-	-	421,428
K McGuinness	168,460	-	48,633	15,890	4,212	3,200	-	-	240,395
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
Executives									
Y Isoda (ii)	202,666	149,499	12,544						364,709
B Swaim	191,504	-	22,756	25,565	16,133	-	-	-	255,958
C Warren (ii)	227,361	18,354	-	-	-	-	-	-	245,715
A Stevens (iii)	143,063	28,922	13,024	15,447	3,577	-	-	-	204,033
S Luscombe (ii)	132,992	54,139	-	16,842	-	-	-	-	203,973
R Stone	103,744	-	6,630	9,437	2,594	-	-	-	122,405
A Mitchell	53,987	-	-	4,362	1,350	-	-	-	59,699
H Pummer (iv)	44,064	-	-	-	-	-	-	-	44,064
TOTAL	**1,829,836**	**264,858**	**114,844**	**109,176**	**30,005**	**9,600**	**-**	**-**	**2,358,319**

Bonuses granted as compensation

i) Mr P Falzon was paid a cash bonus of $13,944 in August 2007 for the performance during the year ended 30 June 2007 (2007: Bonuses of $7,952 and $15,905 were paid in August 2006 and February 2007 respectively). This was in line with performance based elements of his contract, which incorporated key performance indicators based on the consolidated net profit before tax results achieved. In 2008, 50% of the potential bonus has vested, with 50% being forfeited.

ii) In line with performance based elements of the contracts with key management personnel, bonuses paid as part of salary were granted during the years ended 30 June 2008 and 2007 based on specific criteria for regional performances during each quarter of the year. They are based on gross margins and net contribution to profit for the following:

- Mr Y Isoda received bonuses of $52,886, $20,267, $29,792 and $46,554 in August and December 2007, February and June 2008 (2007: $21,463, $21,463, $32,570 and $38,451 were paid in August, November 2006, February and June 2007 respectively). In 2008, 100% of the potential bonus has vested.
- Ms C Warren received a bonus of $18,354 in April 2008 (2007: $12,460, $35,923 and $16,614 were paid in September 2006, January and May 2007 respectively). In 2008, 22% of the potential bonus has vested, with 78% being forfeited.
- Mr S Luscombe was paid bonuses of $31,599 and $22,580 in August 2007 and March 2008 respectively (2007: $5,000, $41,324 and $22,723 in September 2006, February and June 2007 respectively). In 2008, 90% of the potential bonus has vested, with 10% being forfeited.
- Mr B Swaim did not receive any bonuses during 2008 (2007: $3,309 was paid in February 2007). In 2008, 100% of the potential bonus has been forfeited.

iii) In line with performance based elements of the contracts with key management personnel, Mr A Stevens was paid bonuses of $10,000 and $18,922 in July 2007 and January 2008 respectively as part of his salary based on specific criteria for departmental performance during the year (2007: $792 and $10,000 in September 2006 and April 2007). In 2008, 100% of the potential bonus has vested.

iv) In line with performance based elements of the contracts with key management personnel, Mr H Pummer did not receive any bonuses in 2008 (2007: $12,724 in March 2007) as part of his salary based on specific criteria for departmental performance during the year and ceased employment on 31 August 2007. In 2008, 100% of the potential bonus has been forfeited.

v) Mr P Falzon had an unpaid termination benefit of $157,895 at 30 June 2008.

vi) The amounts included in the table above identified as "profit sharing and bonuses" represents the amount that vested in the financial year based on the satisfaction of specific performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2008 financial year. Where amounts have been forfeited, it was due to the performance or service criteria not being met in the current financial year.

	Short term employee benefits			Post employment benefits		Share based payments		Other long term benefits	Total
2007	Cash salary & fees $	Profit sharing & bonuses $	Non-monetary benefits $	Pension & super-annuation $	Other $	Equity settled - Options $	Cash settled $	$	$
Directors									
V Previn	193,332	-	-	17,400	1,375	-	-	-	212,107
P Falzon (i)	222,669	23,857	5,351	7,157	-	-	-	-	259,034
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
Executives									
K McGuinness	153,503	-	25,174	14,201	10,969				203,847
H Pummer (iv)	229,031	12,724	687	5,196	-	6,177	-	-	253,815
C Warren (ii)	232,807	64,997	-	-	-	-	-	-	297,804
B Swaim (ii)	217,037	3,309	25,957	24,966	-	-	-	-	271,269
S Luscombe (ii)	122,955	69,047	-	16,532	-	-	-	-	208,534
A Stevens (iii)	124,422	10,792	11,818	12,302	9,201	-	-	-	168,535
Y Isoda (ii)	214,631	113,947	12,122	-	-	-	-	-	340,700
TOTAL	**1,735,387**	**298,673**	**81,109**	**100,004**	**21,545**	**6,177**	**-**	**-**	**2,242,895**

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2008.

	30 June 2008 $'000	30 June 2007 $'000	30 June 2006 $'000	30 June 2005 $'000	30 June 2004* $'000
Revenue (i)	50,367	44,421	34,593	26,958	24,678
EBITDA	3,912	4,613	4,996	1,857	2,072
Net profit before tax	1,858	2,824	3,839	812	(376)
Net profit after tax	4,834	4,368	3,693	629	(206)

i) Revenue includes revenue from sale of goods of ongoing operations and interest received as per the "Revenue" note to the accounts in each financial year.

*Ellex Medical Lasers Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004 which resulted in various changes to its accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with Ellex Medical Lasers Limited's previous accounting policies permitted under Australian accounting standards as applicable at that time.

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Share price at start of year	0.830	0.625	0.240	0.295	0.460
Share price at end of year	0.295	0.830	0.625	0.240	0.295
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share (a)	6.93 cps	6.93 cps	6.02 cps	1.03 cps	(0.30) cps
Diluted earnings per share (a)	6.84 cps	6.75 cps	5.75 cps	1.03 cps	(0.30) cps

a) Ellex Medical Lasers Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004 which resulted in various changes to its accounting policies from that date. The basic and diluted earnings per share for the year ended 30 June 2004 were calculated in accordance with Ellex Medical Lasers Limited previous accounting policies as permitted under Australian accounting standards as applicable at that time.

The consolidated entity has continued to invest in its sales and distribution network, whilst continuing to develop its research and development in relation to ophthalmic laser and ultrasound equipment and the revenue generating opportunities arising from this. As a result, there has been continued reinvestment in the business to grow these opportunities and, accordingly, there is not a demonstrable link between performance and shareholder wealth in the short-term.

Elements of compensation related to performance

Compensation to directors and executives include performance based elements. Key Performance Indicators are based on profit and/or revenue as determined by the Board.

Value of options issued to directors and executives

No options were granted, exercised or lapsed during the year in relation to directors or executives.

The following table discloses the value of options granted, exercised or lapsed during the 2007 year:

2007	Value of options granted at grant date $	Value of options exercised at exercise date $	Value of options lapsed at the date of lapse $	Total value of options granted, exercised and lapsed $
K McGuinness	-	14,440	-	14,440
H Pummer	6,177	-	-	6,177

Value of options - basis of calculation

1) The total value of options granted is calculated on the fair value of the option at the grant date multiplied by the number of options granted during the year
2) The total value of the options included in compensation for the year is calculated in accordance with Australian Accounting Standards
   - The value of the options is determined at grant date and included in compensation on a proportionate basis from grant date to vesting date. Where the options immediately vest the full value of the option is recognised in compensation in the current year.
3) Vesting of options listed above is subject to the following performance being achieved:
   - Achieving 15% Compound Annual Growth in "Product Revenues" (other income is excluded) with the year ended June 2005 being the "base year". If in a particular year revenue does not grow 15% but the Compound Annual Growth Revenue from the base year is greater than 15% per annum then the performance criteria will have been met; and
     - Achieving the following EBITDA:
     - Year to June 2006 – 7.5% of target revenue
     - Year to June 2007 – 10.0% of target revenue
     - Year to June 2008 – 12.5% of target revenue

The vesting of options is subject to final ratification by the Board.

Proceedings on behalf of the Company

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

Non-Audit Services

The auditors did not provide any non-audit services during the year. Details of amounts paid or payable to the auditor for all services provided during the year by the auditor are outlined in note 7 to the financial statements.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 20 of the financial report.

Rounding off of Amounts

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

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

On behalf of the Directors

Victor Previn

Chairman

Adelaide, 26 August 2008

Independence Declaration to the directors of Ellex Medical Lasers Limited

Deloitte.

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The Board of Directors
Ellex Medical Lasers Limited
82 Gilbert Street
Adelaide 5000

26 August 2008

Dear Board Members

Ellex Medical Lasers Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Ellex Medical Lasers Limited.

As lead audit partner for the audit of the financial statements of Ellex Medical Lasers Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu.
DELOITTE TOUCHE TOHMATSU

Jason Handel.
J J Handel
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

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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, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 as set out on pages 19 to 65.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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. These Auditing Standards require that we 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 entity's preparation and fair presentation of the financial report 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 entity'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.

Auditor's Independence Declaration

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 company and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2008. 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

In our opinion the Remuneration Report of Ellex Medical Lasers Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Jonathan Handel.

J J Handel
Partner
Chartered Accountants
Adelaide, 26 August 2008

Member of
Deloitte Touche Tohmatsu

Directors' Declaration

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity; and

c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the Directors

Victor Previn

Chairman

Adelaide, 26 August 2008

Income Statement for the financial year ended 30 June 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
Revenue	2	50,367	44,421	-	-
Other income	4	1,437	1,534	-	-
Changes in inventories of finished goods and work in progress		3,673	2,479	-	-
Raw materials and consumables used		(29,089)	(25,567)	-	-
Employee benefits expense	4	(16,046)	(12,447)	-	-
Legal fees	4	(112)	(31)	-	-
Depreciation and amortisation expense	4	(1,405)	(1,275)	-	-
Advertising and marketing expenses		(1,848)	(1,644)	-	-
Finance costs	3	(649)	(514)	-	-
Product development costs		(253)	(488)	-	-
Other expenses		(4,217)	(3,644)	-	-
Profit before income tax		1,858	2,824	-	-
Income tax benefit/(expense)	5	2,976	1,544	-	-
Profit for the year		4,834	4,368	-	-
Attributable to:					
Equity holders of the parent		4,745	4,267	-	-
Minority Interest		89	101	-	-
		4,834	4,368	-	-
Earnings per share:					
Basic (cents per share)	25	6.93	6.93		
Diluted (cents per share)	25	6.84	6.75		

Balance Sheet as at 30 June 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
Current assets					
Cash & cash equivalents	32	830	2,740	2	5
Trade and other receivables	8	13,038	11,763	-	2,805
Other financial assets	9	275	167	-	-
Inventories	10	17,745	14,729	-	-
Current tax assets	5	246	365	-	-
Other	11	1,008	651	-	-
Total current assets		33,142	30,415	2	2,810
Non-current assets					
Trade and other receivables	8	168	153	-	-
Other financial assets	12	-	-	34,507	31,795
Property, plant and equipment	13	3,761	2,732	-	-
Deferred tax assets	5	6,238	2,986	-	-
Goodwill	14	21,680	21,465	-	-
Other intangible assets	15	6,952	5,936	-	-
Total non-current assets		38,799	33,272	34,507	31,795
Total assets		71,941	63,687	34,509	34,605
Current liabilities					
Trade and other payables	17	8,085	8,381	-	187
Borrowings	18	9,175	5,131	-	-
Current tax liabilities	5	227	254	99	99
Provisions	19	1,736	1,078	-	-
Other liabilities	20	439	378	-	-
Total current liabilities		19,662	15,222	99	286
Non-current liabilities					
Borrowings	18	1,380	1,220	-	-
Provisions	19	218	270	-	-
Other liabilities	21	2,740	3,595	-	-
Total non-current liabilities		4,338	5,085	-	-
Total liabilities		24,000	20,307	99	286
Net assets		47,941	43,380	34,410	34,319
Equity					
Issued capital	22	33,635	33,544	33,635	33,544
Reserves	23	(2,321)	(1,957)	-	-
Retained earnings	24	16,417	11,672	775	775
		47,731	43,259	34,410	34,319
Equity attributable to equity holders of the parent		47,731	43,259	34,410	34,319
Minority interest		210	121	-	-
Total equity		47,941	43,380	34,410	34,319

Notes to the Financial Statement are included on pages 27 to 68

Statement of Recognised Income and Expense for the financial year ended 30 June 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
Translation of foreign operations:					
Exchange differences taken to equity	23	(389)	(1,747)	-	-
Net loss recognised directly in equity		(389)	(1,747)	-	-
Profit for the period		4,834	4,368	-	-
Total recognised income and expense for the period		4,445	2,621	-	-
Attributable to:					
Equity holders of the parent		4,356	2,500	-	-
Minority interest		89	121	-	-
		4,445	2,621	-	-

Cash flow statement
for the financial year ended 30 June 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers		50,417	44,152	-	-
Grant income received		699	252	-	-
Payments to suppliers and employees		(51,524)	(41,256)	-	-
Interest received		52	17	-	-
Interest and other costs of finance paid		(649)	(514)	-	-
Income tax paid		(184)	(720)	-	-
Net cash provided by/(used in) operating activities	32	(1,189)	1,931	-	-
Cash flows from investing activities					
Payments for capitalised development expenditure		(1,320)	(883)	-	-
Payment for property, plant and equipment		(1,820)	(1,074)	-	-
Payment for long-term deposits		(15)	(153)	-	-
Payment for earnouts to previous owners		(838)	-	-	-
Payment for acquisition of businesses		-	(2,052)	-	-
Proceeds from sale of property, plant and equipment		12	-	-	-
Payment for intangible assets		(287)	(116)	-	-
Net cash (used in)/provided by investing activities		(4,268)	(4,278)	-	-
Cash flows from financing activities					
Proceeds from issues of equity		2,896	2,741	2,896	2,741
Payment for share issue costs		-	(7)	-	(193)
Proceeds from borrowings		5,183	4,900	-	-
Repayment of leases		(85)	(73)	-	-
Repayment of borrowings		(4,910)	(167)	(2,899)	(2,544)
Net cash provided by/(used in) financing activities		3,084	7,394	(3)	4
Net increase in cash and cash equivalents		(2,373)	5,047	(3)	4
Cash and cash equivalents at the beginning of the financial year		2,740	(560)	5	1
Effects of exchange rate changes on the balance of cash held in foreign currencies		(389)	(1,747)	-	-
Cash and cash equivalents at the end of the financial year	32	(22)	2,740	2	5

Notes to the Financial Statement are included on pages 27 to 68

Notes to the Financial Statements for the financial year ended 30 June 2008

1. Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the Company and the consolidated financial statements of the group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial statements and notes of the Company and consolidated group comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 26 August 2008.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian Dollars unless otherwise noted.

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

Adoption of New & Revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The consolidated entity has also adopted the following Standards as listed below which only impact on the financial statements with respect to disclosure.

- AASB 101 'Presentation of Financial Statements' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue, but not yet effective. Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the consolidated entity and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
• AASB 8 'Operating Segments' AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010

1. Significant accounting policies (cont'd)

Initial application of the following Standards is not expected to have any material impact on the financial report of the consolidated entity and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	AASB – (business combinations occurring after the beginning of annual reporting periods 1 July 2009), AASB 127 and ASV 2008-3 (1 July 2009)	30 June 2010
• AASB 2008-1 'Amendments to Australian Accounting Standard - Share-Based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
• AASB 2008-5 'Amendments to Australian Accounting Standard arising from the Annual Improvements Process'	1 January 2009	30 June 2010
• AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 July 2009	30 June 2010
• AASB 2008-7 'Amendments to Australian Accounting Standards – cost of an investment in a subsidiary, jointly controlled entity or associate'	1 July 2009	30 June 2010

The initial application of the expected issue of an Australian Interpretation is not expected to have a material impact on the financial report of the consolidated entity and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis for making judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the current period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Previously unrecognised deferred tax

In 2008, the deferred tax asset was recognised in the financial report (as per note 5) for the tax benefit of the uplift in Intellectual Property upon entering the Tax Consolidation regime in Australia from 1 July 2004. This was due to the Australian Taxation Office (ATO) review being resolved during the second half of 2008.

1. Significant accounting policies (cont'd)

Previously unused tax losses

In 2007, Japan started to become profitable, with the expectation to continue in this manner. As such, tax losses were recognised as deferred tax assets in the financial report (as per note 5).

Earn-outs of goodwill to previous owners of businesses acquired

Calculations of the earn-outs to the previous owners of the businesses acquired in 2007 have been made by management based on performance during the year, and budgeted performance over the 3 years of the earn-out clauses in the acquisition contracts.

Accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2008 and the comparative information presented in these financial statements for the year ended 30 June 2007.

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

a) 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 borrowing 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.

b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

c) Cash and cash equivalents

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 balance sheet.

d) Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts and collar options. Further details of derivative financial instruments are disclosed in note 33 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

1. Significant accounting policies (cont'd)

e) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, staff bonuses, annual leave, long service leave and sick 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 entity in respect of services provided by employees up to reporting date.

Contributions to defined contribution super plans are expensed when incurred.

f) 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, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at 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.

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 entity 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 33.

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 asset, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet 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.

1. Significant accounting policies (cont'd)

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.

With the exception of available-for-sale equity instruments, 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.

g) Financial instruments issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or 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 entity are recorded at the proceeds received, net of direct issue costs.

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.

h) Foreign currency

The individual financial statements of each entity in the consolidated group are presented in its functional currency being the currency of the primary economic environment in which the entity operates. 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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 balance sheet 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 entity's foreign currency translation reserve. Such differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

1. Significant accounting policies (cont'd)

i) Goods and services tax

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

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

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

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

Cash flows are included in the cash flow statement 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.

j) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. If the recoverable amount of the Cash Generating Unit (CGU) or group of CGUs is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. Refer also note 1(l).

k) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity 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 entity 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 entity with no future related costs are recognised as income of 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.

l) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, 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.

1. Significant accounting policies (cont'd)

l) Impairment of assets (cont'd)

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.

m) 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 balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. 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 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 entity 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 entity 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 company/consolidated entity 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 income statement, 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).

1. Significant accounting policies (cont'd)

m) Income tax (cont'd)

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.

n) 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.

Research and 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 as 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.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

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

- Capitalised development costs 5 – 15 years

o) 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.

p) Leased assets

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

Consolidated entity as lessee

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 balance sheet as a finance lease obligation.

1. Significant accounting policies (cont'd)

p) Leased assets (cont'd)

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.

q) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 29 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 minority 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.

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

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

r) Property, plant and equipment

Land and buildings, 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, including freehold buildings but excluding land. 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.

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

- Buildings — 40 years
- Plant and equipment — 2.5 – 20 years
- Equipment under finance lease — 4 – 5 years

s) Provisions

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

<u>Warranties</u>

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 entity's liability.

1. Significant accounting policies (cont'd)

t) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

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.

u) Share-based payments

Equity-settled share-based payments granted, are measured at fair value at the date of grant. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

2. Revenue

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Revenue from continuing operations consisted of the following items:				
Revenue from the sale of goods	50,315	44,404	-	-
Interest revenue:				
Bank deposits	52	17	-	-
	50,367	44,421	-	-

3. Finance costs

Interest on bank overdrafts and loans	632	470		
Interest on obligations under finance leases	14	15	-	-
Other interest expense	3	29	-	-
Attributable to continuing operations	649	514	-	-

4. Profit for year before income tax

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
a) Gains and losses				
Profit/(losses) for the year has been arrived at after crediting/(charging) the following gains and losses from continuing operations:				
Other income				
Gain/(loss) on disposal of property, plant and equipment	(3)	-	-	-
Net foreign exchange gains	574	436	-	-
R & D Income	774	647	-	-
Other income	92	451	-	-
	1,437	1,534	-	-
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:				
Cost of goods sold	27,686	24,851	-	-
Net bad and doubtful debts arising from:				
Other entities	(10)	1	-	-
	(10)	1	-	-
Depreciation of property, plant and equipment	814	693	-	-
Amortisation of intangible assets	591	582	-	-
	1,405	1,275	-	-
Total research and development costs (excluding employee costs less capitalised costs)	898	1,393	-	-
Operating lease rental expenses:				
Minimum lease payments	899	788	-	-
Employee benefit expense:				
Share based payments:				
Equity settled share based payments	25	36	-	-
Post employment benefits:				
Defined contribution plans	777	618	-	-
Other employee benefits	15,244	11,793	-	-
	16,046	12,447	-	-
Legal fees	112	31	-	-

5. Income taxes

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
a) Income tax recognised in profit or loss				
Tax expense comprises:				
Current tax expense/(benefit)	276	534	-	-
Deferred (benefit)/tax expense	(3,252)	(2,078)	-	-
Total tax (benefit)/expense	(2,976)	(1,544)	-	-
Attributable to:				
Continuing operations	(2,976)	(1,544)	-	-
Deferred (benefit)/tax expense	(2,976)	(1,544)	-	-
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:				
Profit from operations	1,858	2,824	-	-
Income tax expense calculated at 30%	557	847	-	-
Non-deductible expenses	31	14	-	-
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	140	255	-	-
Amortisation of Intellectual Property	-	(251)	-	-
Previously unrecognised & unused tax losses now recognised as deferred tax assets	(3,729)	(1,850)	-	-
Unused tax losses and tax offsets not recognised as deferred tax assets	-	2	-	-
Other – R & D Tax Concession	(150)	(267)	-	-
Other	41	(320)	-	-
Under/(over) provision of income tax in previous year	134	26	-	-
Total tax (benefit)/expense	(2,976)	(1,544)	-	-

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 when compared with the previous reporting period.

b) Current tax assets and liabilities				
Current tax assets				
Prepaid taxes (USA)	132	365	-	-
Tax refund (Tax consolidated group)	114	-	-	-
	246	365	-	-
Current tax liabilities:				
Tax provision (Ellex Australia)	203	254	99	99
Tax provision (Europe)	24	-	-	-
	227	254	99	99

5. Income taxes (cont'd)

c) Deferred tax balances

Deferred tax assets/(liabilities) arising from the following: 2008	1/07/07	Charged to Income	Foreign Exchange	30/06/08
Temporary Differences				
PPE	131	6	-	137
Intangibles	250	3,729	-	3,979
Capitalised R&D	(1,550)	(218)	-	(1,768)
Fair value through profit or loss financial assets	(37)	(32)	-	(69)
Provisions	304	141	-	445
Doubtful Debts	28	-	-	28
Other financial liabilities	778	(18)	-	760
Temporary timing difference on unearned profits	937	(200)	-	737
Other	295	(242)	-	53
	1,136	**3,166**	**-**	**4,302**
Unused tax loses and credits				
Tax losses (Japan)	1,850	(216)	37	1,671
Tax losses (USA)	-	265	-	265
	1,850	**49**	**37**	**1,936**
	2,986	**3,215**	**37**	**6,238**

2007	1/07/06	Charged to Income	Foreign Exchange	30/06/07
Temporary Differences				
PPE	81	50	-	131
Intangibles	501	(251)	-	250
Capitalised R&D	(1,464)	(86)	-	(1,550)
Fair value through profit or loss financial assets	(1)	(36)	-	(37)
Provisions	308	(4)	-	304
Doubtful Debts	29	(1)	-	28
Other financial liabilities	778	-	-	778
Temporary timing difference on unearned profits	632	305	-	937
Other	44	251	-	295
	908	**228**	**-**	**1,136**
Unused tax loses and credits				
Tax losses (Japan)	-	1,850	-	1,850
	-	**1,850**	**-**	**1,850**
	908	**2,078**	**-**	**2,986**

There were no deferred tax balances in the company in 2008 or 2007.

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Timing difference – Intellectual Property	-	3,729	-	-
	-	3,729	-	-

5. Income taxes (cont'd)

Tax consolidation

Relevance of tax consolidation to the consolidated entity

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 29.

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 entity 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.

The options granted expire as per the table below or within 2 months of when an employee ceases employment with the Company, whichever is the earlier.

The following share-based payment arrangements were in existence at the end of the period:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Issued 30 September 2005 – 1	933,331	30/09/05	30/09/09	$0.30	$0.036
Issued 30 September 2005 – 2	1,266,668	30/09/05	30/09/10	$0.40	$0.019
Issued 30 September 2005 – 3	1,333,336	30/09/05	30/09/11	$0.50	$0.012
Issued 5 July 2006 – 1	199,998	05/07/06	30/09/09	$0.70	$0.119
Issued 5 July 2006 – 2	166,666	05/07/06	30/09/10	$0.90	$0.062
Total	**3,899,999**				

All options issued are subject to vesting rules based on meeting revenue and profit growth targets.

There were no share options issued or granted during the financial year. The weighted average fair value of the share options granted during 2007 was $0.050. Options were priced using the Black Scholes Model.

6. Share-based payments (cont'd)

Inputs into the model	Option series				
	30 September 2005-1	30 September 2005-2	30 September 2005-3	5 July 2006-1	5 July 2006-2
Grant date share price	$0.30	$0.30	$0.30	$0.625	$0.625
Exercise price	$0.30	$0.40	$0.50	$0.70	$0.90
Expected volatility	17.5%	17.5%	17.5%	16%	16%
Option life	4 years	5 years	6 years	3 years	4 years
Dividend yield	-	-	-	-	-
Risk-free interest rate	5.02%	5.02%	5.02%	5.79%	5.79%

The following reconciles the outstanding share options granted under the Ellex Medical Lasers Limited Employee Share Option Plan at the beginning and end of the financial year:

	2008		2007	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	4,033,331	$0.49	4,566,667	$0.41
Granted during the financial year	-	-	366,664	$0.63
Forfeited during the financial year	(133,332)	$0.35	-	-
Exercised during the financial year (i)	-	-	(690,066)	$0.40
Expired during the financial year	-	-	(209,934)	$0.50
Balance at end of the financial year	3,899,999	$0.42	4,033,331	$0.49
Exercisable at end of the financial year	3,899,999	$0.42	4,033,331	$0.49

(i) Exercised during the financial year

The following share options granted under the employee share option plan were exercised during the financial year:

2008 Options series	Number exercised	Exercise date	Share price at exercise date $
Issued 30 September 2005 – 1	66,666	14/03/08	$0.67
Issued 30 September 2005 – 2	66,666	26/03/08	$0.61
Total	**133,332**		

2007 Options series	Number exercised	Exercise date	Share price at exercise date $
Issued November 2003	290,067	30/11/06	$0.81
Issued 30 September 2005 – 1	66,666	30/11/06	$0.81
Issued 30 September 2005 – 1	333,333	09/02/07	$0.90
Total	**690,066**		

7. Remuneration of auditors

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Auditor of the parent entity				
Audit or review of the financial report	152,598	113,750	10,000	10,000
	152,598	113,750	10,000	10,000

The auditor of Ellex Medical Lasers Limited is Deloitte Touche Tohmatsu.

8. Trade and other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Current				
Trade receivables (i)	12,262	8,175	-	-
Allowance for doubtful debts	(92)	(94)	-	-
	12,170	8,081	-	-
Sundry deposits recoverable	691	612	-	-
Receivable – share placement	-	2,805	-	2,805
Other receivables	96	217	-	-
Goods and services tax (GST) recoverable	81	48	-	-
	13,038	11,763	-	2,805
Non Current				
Sundry deposits recoverable	168	153	-	-
	168	153	-	-

i) The average credit period on sales of goods is 89 days (FY07: 67 days). The debtors balance that has been financed (note 18) is $3,164. After deducting this balance, the average credit period on sales of goods is 66 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before extending open credit terms to new distributors (Europe, Asia and Latin America), insurance coverage is gained for these distributors. Credit terms of 30-60 days (Japan: 90-180 days) are then extended to the customer up to the insured limit. Once the receivables balance passes 90 days, the customer is reported to the insurance company and risk losing the coverage and open account trading terms. These limits are reviewed twice a year and if any particular concerns about payment are known, open accounts are closed, and prepayment or irrevocable letters of credit are required prior to sales shipped. Additionally, insurance coverage is held for approximately 90% of Ellex Japan's receivable balance of $5.9 million.

The remainder of the receivables balance is made up of the uninsured balances, predominately from USA and Australia. Prior to extending credit terms to customers, a signed purchase order agreeing to the terms and conditions of the sale is received, showing a commitment to make the payment. If there is any doubt about the ability of the customer to pay (due to previous experience), prepayment is requested. There is no reason to believe that this balance is not recoverable.

8. Trade and other receivables (cont'd)

	Consolidated		Company	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
Aging of past due but not impaired				
60 – 90 days	469	212	-	-
90 – 120 days	633	167	-	-
Total	1,102	379	-	-
Movement in the allowance for doubtful debts				
Balance at the beginning of the year	94	97	-	-
Amounts written off as uncollectible	(2)	(3)	-	-
Balance at the end of the year	92	94	-	-

In determining the recoverability of a trade receivable, the consolidated entity considers any change in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited due to the customer base being large, unrelated and insured. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

9. Other current financial assets

	Consolidated		Company	
	2008	2007	2008	2007
	$ '000	$ '000	$ '000	$ '000
At fair value through profit or loss:				
Foreign currency forward contracts	275	167	-	-
	275	167	-	-

10. Current inventories

Raw materials	3,680	4,337	-	-
Work in progress	2,470	1,839	-	-
Finished goods	11,595	8,553	-	-
	17,745	14,729	-	-

11. Other current assets

Prepayments	1,008	651	-	-
	1,008	651	-	-

12. Other non-current financial assets

Investment in controlled entities	-	-	24,478	24,395
Receivable from controlled entity (i)	-	-	10,029	7,400
	-	-	34,507	31,795

i) No issues have been determined that will affect the recoverability of this receivable and no risk of recovery has been assessed on this balance as it is a receivable from a wholly owned subsidiary.

13. Property, plant and equipment

	Consolidated			
	Buildings	Plant and equipment at cost	Equipment under finance lease at cost	Total
	$'000	$'000	$'000	$'000
Gross carrying amount				
Balance at 1 July 2006	-	3,958	327	4,285
Additions	70	946	58	1,074
Additions in business acquisitions		125		125
Disposals	-	(61)	-	(61)
Net foreign currency exchange differences	-	-	-	-
Balance at 30 June 2007	70	4,968	385	5,423
Additions	54	1,779	30	1,863
Disposals	-	(9)	(32)	(41)
Net foreign currency exchange differences	-	(43)	-	(43)
Balance at 30 June 2008	124	6,695	383	7,202
Accumulated depreciation/ amortisation and impairment				
Balance at 1 July 2006	-	(1,930)	(125)	(2,055)
Disposals	-	21	-	21
Depreciation expense	(8)	(685)	-	(693)
Net foreign currency exchange differences	-	36	-	36
Balance at 30 June 2007	(8)	(2,558)	(125)	(2,691)
Disposals	-	8	18	26
Depreciation expense	(17)	(785)	(12)	(814)
Net foreign currency exchange differences	-	38	-	38
Balance at 30 June 2008	(25)	(3,297)	(119)	(3,441)
Net book value				
As at 30 June 2007	62	2,410	260	2,732
As at 30 June 2008	99	3,398	264	3,761

The parent company has no property, plant and equipment at 30 June 2008.

13. Property, plant and equipment (cont'd)

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Leasehold Improvements	17	8	-	-
Plant and equipment	785	685	-	-
Equipment under finance lease	12	-	-	-
	814	693	-	-

14. Goodwill

Gross carrying amount				
Balance at beginning of financial year	21,465	18,844	-	-
Additions (revised)	215	2,621	-	-
Balance at end of financial year	21,680	21,465	-	-
Accumulated impairment losses				
Balance at beginning of financial year	-	-	-	-
Impairment losses for the year	-	-	-	-
Balance at end of financial year	-	-	-	-
Net book value				
At the beginning of the financial year	21,465	18,844	-	-
At the end of the financial year	21,680	21,465	-	-

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to 3 (2007: 4) individual cash-generating units as follows:

Individual cash-generating units (note 29 subsidiaries listing)

Ellex Inc. (merged with Innovative Imaging, Inc. from 1 July 2007)

Ellex Medical Pty Ltd

Ellex Australia Pty Ltd

14. Goodwill (cont'd)

During the financial year the consolidated entity assessed the recoverable amount of goodwill and determined that there has been no impairment. The carrying amount of goodwill allocated to cash-generating units that are significant individually or in aggregate is as follows:

	Consolidated	
	2008	2007
	$'000	$'000
Ellex Inc. (merged with Innovative Imaging, Inc. from 1 July 2007)	5,948	3,876
Ellex Medical Pty Ltd	14,968	14,968
Innovative Imaging, Inc	-	1,857
Ellex Australia Pty Ltd	764	764
	21,680	21,465

The earnout has been recalculated within the first twelve months and therefore goodwill has increased in Ellex Inc.

Ellex Medical Pty Ltd

The recoverable amount of the Ellex Medical Pty Limited operations is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.7% p.a. (2007: 15.37 % p.a.). This discount rate has been determined on a real (that is, inflation affected), pre financing and pre tax basis. Cash flows beyond that five year period have been extrapolated using a steady growth rate of 3% which is considered realistic given the growth potential of the industry in which Ellex operates. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex Medical Pty Limited operations-global carrying amount to exceed its recoverable amount.

Ellex Inc. (merged with Innovative Imaging, Inc. from 1 July 2007)

The recoverable amount of the Ellex Inc. operations is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.7% p.a. (2007: 15.37% p.a.). This discount rate has been determined on a real (that is, inflation affected), pre financing and pre tax basis. Using a discount rate consistent with Ellex Medical Pty Limited is considered reasonable. Cash flows beyond that five year period have been extrapolated using a steady growth rate of 3% which is considered realistic given the growth potential of the industry in which Ellex Inc. operates. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex Inc. carrying amount to exceed its recoverable amount.

Ellex Australia Pty Ltd

The recoverable amount of the Ellex Australia Pty Limited operations is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.7% p.a. (2007: 15.37 % p.a.). This discount rate has been determined on a real (that is, inflation affected), pre financing and pre tax basis. Using a discount rate consistent with Ellex Medical Pty Limited is considered reasonable. Cash flows beyond that five year period have been extrapolated using a steady growth rate of 3% which is considered realistic given the growth potential of the industry in which Ellex Australia Pty Ltd operates. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex Australia Pty Ltd carrying amount to exceed its recoverable amount.

15. Other intangible assets

	Consolidated		
	Capitalised development $'000	Patents & Trademarks $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2006	5,239	116	5,355
Additions	-	116	116
Additions in business acquisitions	592	-	592
Additions from internal developments	883	-	883
Balance at 30 June 2007	6,714	232	6,946
Additions	-	287	287
Additions from internal developments	1,320	-	1,320
Balance at 30 June 2008	8,034	519	8,553
Accumulated amortisation and impairment			
Balance at 1 July 2006	(359)	(69)	(428)
Amortisation expense	(570)	(12)	(582)
Balance at 30 June 2007	(929)	(81)	(1,010)
Amortisation expense	(592)	1	(591)
Balance at 30 June 2008	(1,521)	(80)	(1,601)
Net book value			
As at 30 June 2007	5,785	151	5,936
As at 30 June 2008	6,513	439	6,952

The parent entity has no intangible assets at 30 June 2008

16. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 18 to the financial statements, all non-current assets of the consolidated entity (except goodwill, capitalised development and deferred tax assets), have been pledged as security.

17. Current trade and other payables

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade payables (i)	4,379	5,688	-	-
Payable to previous owners of acquired businesses	626	673	-	-
Accruals	1,504	1,148	-	187
Payable to directors	77	75	-	-
Other payables	1,499	797	-	-
	8,085	8,381	-	187

i) The average credit period on purchases of certain goods from the invoice date is 55 days (2007: 81 days), certain goods from the United States have terms of 60 days, and from Europe, 90 days. No interest is charged on the trade payables. The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

18. Borrowings

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Secured – at amortised cost				
Current				
Bank overdrafts (note 32a) (ii)	852	-	-	-
Commercial Bills (i) (ii)	5,000	5,000	-	-
Finance lease liabilities (note 28) (iii)	43	76	-	-
Debtor Financing Facility (v)	3,164	-	-	-
Other – Finance Advance (iv)	116	55	-	-
	9,175	5,131	-	-
Non-Current				
Commercial Bills (ii)	1,300	1,180	-	-
Finance lease liabilities (note 28) (iii)	80	40	-	-
	1,380	1,220	-	-

Summary of borrowing arrangements

i) Relates to the current portion of long-term borrowings

ii) Secured by a fixed and floating charge over the Group's Australian assets

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

iv) Secured over the Group's insurance policy

v) 350 million Japanese Yen facility to finance debtors up to 120 days with interest being charged at an average of 3%. This is a Limited Recourse Trade Finance Facility secured by insurance over the debtor balances financed. The cash flows from this balance are reflected in "Receipts from customers" as the facility utilised is a cash amount (net of discount interest) received upon financing the debtor balances.

19. Provisions

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current				
Employee benefits (i)	1,248	872	-	-
Warranty	413	206	-	-
Other provision (iii)	75	-	-	-
	1,736	1,078	-	-
Non-Current				
Employee benefits	218	270	-	-
	1,954	1,348	-	-

	Warranty (ii)	Warranty (ii)
Balance at 1 July 2007	206	-
Additional provisions recognised	586	-
Payments made	(379)	-
Balance at 30 June 2008	413	-

19. Provisions (cont'd)

i) The current provision for employee benefits includes $263 thousand of vested long service leave entitlements accrued but not expected to be taken within 12 months

ii) 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 entity's 2 year 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

iii) The other provision represents the present value of the directors' best estimate of the costs directly and necessarily incurred for the closing of the office in San Francisco. This is expected to be completed by 30 June 2009.

20. Other current liabilities

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Deferred grant income	439	378	-	-
	439	378	-	-

21. Other non-current liabilities

Payable to previous owners of acquired businesses	861	1,437	-	-
Deferred grant income	1,879	2,158	-	-
	2,740	3,595	-	-

22. Issued capital

68,530,839 fully paid ordinary shares (2007: 68,397,507)	33,635	33,544	33,635	33,544
	33,635	33,544	33,635	33,544

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 2008		Company 2007	
	No. '000	'000	No. '000	'000
Fully paid ordinary shares				
Balance at beginning of financial year	68,398	33,544	61,237	27,985
Issued Shares – capital raising	-	-	6,471	5,500
Issued Shares – options exercised	133	47	690	252
Share issue costs (i)	-	44	-	(193)
Balance at end of financial year	68,531	33,635	68,398	33,544

22. Issued capital (cont'd)

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

i) In 2007, share issue costs of $193 thousand were included, however, in 2008 these were revised to $136 thousand, and other share issue costs of $13 thousand were included.

Share options

933,331 (2007: 1,000,000) unquoted employee options exercisable over ordinary shares at $0.30 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

1,266,668 (2007: 1,333,333) unquoted employee options exercisable over ordinary shares at $0.40 each and expiring 30 September 2010 were on issue and were not exercised at the end of the financial year.

1,333,336 (2007: 1,333,334) unquoted employee options exercisable over ordinary shares at $0.50 each and expiring 30 September 2011 were on issue and were not exercised at the end of the financial year.

199,998 (2007: 199,998) unquoted employee options exercisable over ordinary shares at $0.70 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

166,666 (2007: 166,666) unquoted employee options exercisable over ordinary shares at $0.90 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

Ellex Medical Lasers Limited share options carry no rights to dividends and no voting rights. Further details of the Employee Share Option Plan are contained in note 6 to the financial statements.

23. Reserves

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Share option reserve				
Balance at beginning of financial year	88	52	-	-
Movements – Employee Share based payments	25	36	-	-
Balance at end of financial year	113	88	-	-

The share option reserve arises on the grant of share options to executives and employees under the executive and employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 6 to the financial statements.

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Foreign currency translation reserve				
Balance at beginning of financial year	(2,045)	(298)	-	-
Translation of foreign operations	(389)	(1,747)	-	-
Balance at end of financial year	(2,434)	(2,045)	-	-

Exchange differences relating to the translation from US Dollars, Japanese Yen and the Euro, being the functional currencies of the consolidated entity'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

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Net reserves	(2,321)	(1,957)	-	-

24. Retained earnings

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance at beginning of financial year	11,672	7,405	775	775
Net profit attributable to members of the parent entity	4,745	4,267	-	-
Balance at end of financial year	16,417	11,672	775	775

25. Earnings per share

	Consolidated	
	2008 Cents per share	2007 Cents per share
Basic earnings per share:		
Total basic earnings per share	6.93	6.93
Diluted earnings per share:		
Total diluted earnings per share	6.84	6.75

The 2007 comparative basic and diluted earnings per share have been restated.

Basic earnings per share

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

	Consolidated	
	2008 $'000	2007 $'000
Net profit	4,745	4,267
	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	68,436,071	61,614,593

Diluted earnings per share

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

	Consolidated	
	2008 $'000	2007 $'000
Net profit	4,745	4,267
	2008 No.	2007 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	68,436,071	61,614,593
Shares deemed to be issued for no consideration in respect of:		
Employee options	972,393	1,642,799
Weighted average number of ordinary shares used in the calculation of diluted EPS	69,408,464	63,257,392

26. Dividends

	2008		2007	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Company	
	2008 $'000	2007 $'000
Adjusted franking account balance	3,285	3,241

27. Commitments for expenditure

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 28 to the financial statements.

28. Leases

Disclosures for lessees

Finance leases

Leasing arrangements

Finance leases relate to motor vehicles and plant and equipment with lease terms of between 4 to 5 years. The consolidated entity has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

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

Finance lease liabilities

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Not longer than 1 year	52	83	-	-	44	76	-	-
Later than 1 year and not later than 5 years	90	42	-	-	79	40	-	-
Later than 5 years	-	-	-	-	-	-	-	-
Minimum future lease payments	142	125	-	-	123	116	-	-
Less future finance charges	(19)	(9)	-	-	-	-	-	-
Present value of minimum lease payments	123	116	-	-	123	116	-	-
Included in the financial statements as: (note 18)								
Current borrowings					43	76	-	-
Non-current borrowings					80	40	-	-
					123	116	-	-

28. Leases (cont'd)

Operating leases

Leasing arrangements

Operating leases relate to business premises with lease terms of between 3 to 5 years. The business premises leases will be reviewed at the end of the lease term.

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Non-cancellable operating lease payments				
Not longer than 1 year	811	917	-	-
Longer than 1 year and not longer than 5 years	1,116	1,971	-	-
	1,927	2,888	-	-

29. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2008 %	2007 %
Parent entity			
Ellex Medical Lasers Limited (iv)	Australia		
Subsidiaries			
Ellex Medical Pty Ltd (iv)	Australia	100	100
Laserex Medical Pty Ltd	Australia	100	100
Ellex (USA) Inc (i)	USA	100	100
Ellex (Japan) Corporation	Japan	100	100
Ellex R&D Pty Ltd (iv)	Australia	100	100
Ellex Australia Pty Ltd	Australia	80	80
Ellex Services Europe SARL	France	100	100
Innovative Imaging, Inc (ii)	USA	100	100
Ellex Deutschland GmbH (iii)	Germany	100	-

i) From 1 July 2007 Ellex (USA) Inc and Innovative Imaging, Inc merged to form Ellex (USA) Inc.

ii) In July 2007, Resdev Labs Inc changed its name to Innovative Imaging, Inc.

iii) In June 2008, Ellex Deutschland GmbH was incorporated in Germany.

iv) Ellex Medical Lasers Limited is the head of the Tax Consolidated Group which includes Ellex Medical Pty Ltd and Ellex R&D Pty Ltd.

30. Segment information

The primary segment of the consolidated group is the business of selling ophthalmic equipment, shown in the consolidated income statement and balance sheet in this annual report.

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

Segment revenues

	Revenue from External customers		Segment Assets		Acquisition of segment assets	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Australia	6,075	4,462	51,637	46,680	3,275	2,713
USA	12,273	11,202	6,698	6,784	226	2,632
Europe	13,262	11,360	254	156	9	2
Japan	13,793	10,993	13,352	10,067	132	64
Asia	2,131	2,538	-	-	-	-
Other	2,781	3,849	-	-	-	-
Total of all segments	50,315	44,404	71,941	63,687	3,642	5,411

Products and services within each business segment

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

Australia	The consolidated entity manufactures all of its laser products in Australia and sells some products in Australia. Ellex Australia Pty Ltd was established from 1 October 2006 and has sole distribution rights to Ellex manufactured and a number of other ophthalmic products to complete the full range.
USA	The consolidated entity has a distribution office based in Minneapolis, USA and sells a range of its products in the Americas. From 1 December 2006, Innovative Imaging, Inc was acquired and subsequently merged into Ellex Inc from 1 July 2007 and ophthalmic ultrasounds were added to the sales base. These products are manufactured and sold from California. USA includes OEM products sold in the USA of $2,764 thousand in 2008 (2007: $1,562 thousand).
Europe	The consolidated entity sells a broad range of its products in Europe and the Middle East. From 1 February 2007, an office and warehouse has been established in Clermont-Ferrand, France which includes a Service department and office manager.
Japan	The consolidated entity sells a broad range of its products in Japan.
Asia	The consolidated entity sells a broad range of its products in Asia.

31. 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 29 to the financial statements.

b) Transactions with key management personnel

Details of key management personnel compensation are disclosed in Directors' Report.

c) Key management personnel compensation

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

	Consolidated	
	2008	2007
	$	$
Short-term employee benefits	2,051,643	2,115,169
Post-employment benefits	139,181	121,549
Other long-term benefits	-	-
Termination benefits	157,895	-
Share-based payment	9,600	6,177
	2,358,319	2,242,895

d) Key management personnel equity holdings

Fully paid ordinary shares of Ellex Medical Lasers Limited

2008	Balance@ 1/7/07	Granted as compensation	Options exercised	Net other change	Balance@ 30/06/08	Balance held nominally
	No.	No.	No.	No.	No.	No.
V Previn	3,566,034	-	-	-	3,566,034	3,566,034
P Falzon	760,000	-	-	-	760,000	-
A Sundich	3,400,000	-	-	60,000	3,460,000	2,460,000
K McGuinness	503,333	-			503,333	105,000
J Marshall	50,000	-	-	-	50,000	-
C Warren	31,700	-	-	99,000	130,700	-
B Swaim	50,000	-	-	78,000	128,000	-
H Pummer	93,000	-	-	-	93,000	-
	8,454,067	-	-	237,000	8,691,067	6,131,034

31. Related party disclosures (cont'd)

Fully paid ordinary shares of Ellex Medical Lasers Limited

2007	Balance@ 1/7/06 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance@ 30/06/07 No.	Balance held nominally No.
V Previn	3,566,034	-	-	-	3,566,034	3,566,034
P Falzon	760,000	-	-	-	760,000	-
A Sundich	3,400,000	-	-		3,400,000	2,400,000
K McGuinness	220,000	-	333,333	(50,000)	503,333	105,000
C Warren	-	-	-	31,700	31,700	-
B Swaim	-	-	50,000	-	50,000	-
H Pummer	93,000	-	-	-	93,000	-
	8,039,034	-	383,333	(18,300)	8,404,067	6,071,034

Executive share options of Ellex Medical Lasers Limited

2008	Balance@ 1/7/07 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance@ 30/06/08 No.	Balance held nominally No.
P Falzon	2,200,000	-	-	-	2,200,000	-
K McGuinness	666,667	-	-	-	666,667	-
H Pummer	100,000	-	-	-	100,000	-
	2,966,667	-	-	-	2,966,667	-

Executive share options of Ellex Medical Lasers Limited

2007	Balance@ 1/7/06 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance@ 30/06/07 No.	Balance held nominally No.
P Falzon	2,200,000	-	-	-	2,200,000	-
K McGuinness	1,000,000	-	(333,333)	-	666,667	-
B Swaim	50,000	-	(50,000)	-	-	-
H Pummer	-	100,000	-	-	100,000	-
	3,250,000	100,000	(383,333)	-	2,966,667	-

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

31. Related party disclosures (cont'd)

e) Transactions with other related parties

Other related parties include:

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

At 30 June 2008, 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 $62,409
  - A Sundich $6,250
  - J Marshall $8,094
  - P Falzon $157,895 (termination benefits payable)

At 30 June 2007, 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 $68,409
  - A Sundich $6,250

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

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 receivables totalling $10,029 thousand (2007: $7,400 thousand) are receivable from subsidiaries (note 12).

Transactions between the Group and its related parties

During the financial year ended 30 June 2008, the following transactions occurred between the Group and its other related parties:

- Interest payments of $251 thousand (2007: $80 thousand) were made between subsidiaries in the Group on intercompany loans payable. The weighted average interest rate on the loans is 3.235% (2007: 3.485%). Interest is payable annually.
- Sales between the subsidiaries totalled $18,031 thousand (2007: $15,243 thousand) during the year. Payment terms are 60 days.
- Management fees were charged between subsidiaries of $1,284 thousand (2007: $1,212 thousand) during the year for management, accounting, marketing and communications support.

32. Notes to the cash flow statement

	Consolidated		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	830	2,740	2	5
Bank overdraft (note 18)	(852)	-	-	-
	(22)	2,740	2	5
b) Financing facilities				
Secured bank loan facilities with various maturity dates through to 31 August 2008 and which may be extended by mutual agreement:				
• amount used (note 18)	9,725	6,351	-	-
• amount unused	2,175	1,549	-	-
	11,900	7,900	-	-
c) Reconciliation of profit for the period to net cash flows from operating activities				
Profit/(loss) for the period	4,834	4,368	-	-
Depreciation and amortisation of non-current assets	1,405	1,275	-	-
Employee share options	25	36	-	-
Interest income received and receivable	(52)	(17)	-	-
Increase/(decrease) in tax balances	(3,160)	(1,899)	-	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(916)	(1,781)	-	-
Current inventories	(3,016)	(1,996)	-	-
Other current assets	(465)	(559)	-	-
Increase/(decrease) in liabilities:				
Current payables	(249)	2,059	-	-
Other current & non current liabilities	405	445	-	-
Net cash from operating activities	(1,189)	1,931	-	-

33. Financial instruments

a) Capital risk management

The consolidated entity 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 consolidated entity's overall strategy remains unchanged from 2007.

The capital structure of the consolidated entity consists of debt, which includes the borrowings disclosed in note 18, 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 22, 23 and 24 respectively. The consolidated entity operates globally, primarily through subsidiary companies established in the markets in which the consolidated entity 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 entity's policy is to borrow centrally, using capital market issues and borrowing facilities to meet anticipated funding requirements.

Gearing ratio

The audit committee reviews the capital structure on a semi-annually basis. The consolidated entity has a target gearing ratio of 20-25%, that is determined as the proportion of net debt to equity. The balance of the capital structure will be managed through the issue of new shares, issues or redemption of debt, the payment of dividends or through share buy-backs.

The gearing ratio at year end was as follows:

	Consolidated	
	2008	2007
	$'000	$'000
Financial assets		
Debt (i)	10,555	6,351
Cash and cash equivalents	(830)	(2,740)
Net debt	9,725	3,611
Equity (ii)	47,941	43,380
Net debt to equity ratio	20.3%	8.3%

(i) Debt is defined as long- and short-term borrowings, as detailed in note 18.
(ii) Equity includes all capital and reserves.

Externally imposed capital requirements

The consolidated entity is subject to externally imposed capital requirements by its provider of borrowings. The nature of these requirements is as follows:

- Equity ratio to be maintained at not less than 45%, measured as "total tangible assets less liabilities divided by total tangible assets"
- Interest cover to be maintained at 3 times, measured as "earnings before interest and tax divided by total interest expense"
- Stock and debtors covenant whereby "Group combined stock and debtors are to be maintained at a minimum of $12,000,000"
- Dividends covenant whereby "in any one financial year, dividend declarations and distributions to shareholders must not exceed 50% of net profit after tax for that year without prior consent of the Bank"
- Offshore assets to be no greater than 30% of total group assets.

The requirements are monitored on a continual basis and form part of the regular management and Board reporting. For the years ended 30 June 2007 and 2008 all requirements were met.

33. Financial instruments (cont'd)

b) Financial risk management objectives

The consolidated entity's Finance function has established a Treasury Committee which provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity. 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 entity 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 entity's policies approved by the Board of directors and audit 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.

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 clearly identified in the Balance Sheet and notes thereto.

d) Loans and receivables designated as at 'fair value through profit or loss'

There were no loans and receivables designated as at 'fair value through profit or loss' in 2008 or 2007.

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount in the financial report represents the Company's and the consolidated entity's maximum exposure to credit risk for such loans and receivables.

e) Market risk

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including:

- Forward exchange contracts and collar options to hedge the exchange rate risk arising on the sale of ophthalmic equipment in foreign currencies

At the consolidated entity and Company level market risk exposures are measured using sensitivity analysis. There has been no change in the consolidated entity'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 entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. A Treasury Committee exists to oversee the day-to-day operation of the policy. The policy for management of foreign currency risk has not changed from that used in the previous period.

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

- Price lists

The consolidated entity issues price lists for its products in foreign currency, generally set in terms of its annual budgeted exchange rate, incorporating an exchange rate variation clause under its terms and conditions of sale.

- Sales and purchases in foreign currency

33. Financial instruments (cont'd)

The consolidated entity's major exposure arises from the export of products in foreign currency to off shore locations such as USA, Europe and Japan and the import raw materials also denominated in foreign currency. The consolidated entity 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 entity's foreign currency risk policy is to seek to minimise the volatility associated with foreign currency rates and deliver AUD cash flows with reasonable certainty. A budgeted exchange rate is used by the consolidated entity to assist in hedging decisions.

Policy & processes

The management of consolidated entity'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 manage the 'net' exposure.

Natural Hedge

The consolidated entity 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; and
- Foreign Currency Swap - involving simultaneous purchase and sale of foreign currency against Australian dollars (or vice versa) for short-term mismatches in timing.

Net Exposure

Management of the net exposure uses a disciplined approach with consideration to the underlying exposure.

The consolidated entity uses the following framework to minimise its foreign currency risk to an adverse movement in the Australian dollar with consideration to its budgeted exchange rate.

- A 'committed' foreign currency exposure is incurred at the time the consolidated entity enters into a firm contract to sell, or buy goods in a foreign currency; and
- An 'uncommitted' foreign exchange exposure relates to anticipated foreign currency cash flow or outstanding tenders to sell, or buy goods in a foreign currency.

Such classification provides parameters as to what hedging instruments are to be used, so as not to commit the consolidated entity to any added risk.

Hedging Framework

The foreign currency hedging profile on the consolidated entity's uncommitted and committed positions is to conform to the following limits:

Time Horizon	Maximum (%) of net exposure	Maximum Limiting (%)	Minimum (%)
0 - 6 Mths	90	90	50
7 – 12 Mths	90	75	35
13 - 18 Mths	75	50	20
19 - 24 Mths	30	0	0

33. Financial instruments (cont'd)

Product Policy

The approved products available for use within the foreign currency risk management policy are listed below.

Instrument – Limiting	Maximum Maturity
Spot Foreign Exchange	2 days
Forward Exchange Contract (including Foreign Currency Swaps)	18 Months, though not to exceed maturity of underlying exposure*
Limiting Options	18 Months, though not to exceed maturity of underlying exposure*
Instrument – Non Limiting	**Maximum Maturity**
Non-Limiting Options	2 Years

* Historical rate rollover of hedging is permitted, provided there is still linkage to the underlying exposure

Leverage is permitted, provided the total delivery obligation against the hedging instrument does not exceed the maximum hedging parameters above.

Reporting

A monthly report will be prepared for presentation to the Board which will at a minimum, detail the following:

- Exposure/Hedging Comparison to policy;
- The mark-to-market valuation of the consolidated entity's foreign currency portfolio;
- Sensitivity analysis of above to changes in exchange rates; and
- Maturity profile listing of all outstanding foreign currency transactions.

Performance Measurement

Performance shall be assessed in terms of compliance with policy.

Risk identification and quantification

Risk identification and quantification is achieved through timely information flow within the consolidated entity and accountability at each appropriate organisational level to clearly identify, quantify and forecast financial exposures.

The Group Accountant is advised of all financial exposures, both forecast and actual, within the consolidated entity that arise from areas of marketing, manufacturing, purchasing, etc for collation and effective management within terms of this policy.

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

	Liabilities		Assets	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
US dollars	773	557	2,755	2,297
Japanese Yen	3,814	676	6,218	3,723

33. Financial instruments (cont'd)

Foreign currency sensitivity analysis

The consolidated entity is mainly exposed to US dollars and Japanese Yen.

The following table details the consolidated entity'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. 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, and the balance below would be negative.

	USD Impact				Japanese Yen Impact			
	Consolidated		Company		Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Profit or loss	75	87	-	-	(10)	199	-	-

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

The consolidated entity's sensitivity to Japanese Yen has decreased during the current period due to the implementation of a JPY denominated receivables financing facility.

Forward foreign exchange contracts

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to cover foreign currency receipts within 50% to 90% of anticipated exposures in the following six months, 35% to 75% of anticipated exposures in the seven to 12 months time horizon and 20% to 50% of anticipated exposures in the 13 to 18 month time horizon.

The consolidated entity has entered into contracts to protect against potential adverse currency fluctuations due to the sale of goods in foreign currencies. The consolidated entity has entered into forward foreign exchange contracts (for terms not exceeding 15 months) to hedge the exchange rate risk arising from these anticipated future transactions.

As at reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is $275 thousand (2007: unrealised gains of $167 thousand).

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

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2008	2007	2008 FC'000	2007 FC'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Sell US Dollars								
Less than 3 months	0.9093	0.7201	200	100	220	139	10	20
3 to 6 months	0.8980	-	200	-	223	-	10	-
Longer than 6 months	0.8539	-	600	-	696	-	40	-
	0.8871	0.7201	1,000	100	1,139	139	60	20

33. Financial instruments (cont'd)

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008 FC Mill	2007 FC Mill	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Sell Japanese Yen								
Less than 3 months	96.62	-	25	-	259	-	9	-
3 to 6 months	88.23	-	45	-	508	-	49	-
Longer than 6 months	-	-	-	-	-	-	-	-
	92.425	-	70	-	767	-	58	-

Under collar options contracts, the consolidated entity takes up options to protect against potential adverse currency fluctuations, due to sale and purchase of goods in foreign currencies.

Collar options

The following table details the collar options outstanding as at reporting date.

Outstanding contracts	Put Average Strike Rate		Call Average Strike Rate		Contract value		Fair value	
	2008	2007	2008 $	2007 $	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Sell US Dollars								
Not longer than 1 year	-	0.7333	-	0.6903	-	646	-	75
Longer than 1 year	-	-	-	-	-	-	-	-
					-	646	-	75
Sell JPY Dollars								
Not longer than 1 year	94.083	94.875	85.417	92.625	3,400	2,383	157	72
Longer than 1 year	-	-	-	-	-	-	-	-
					3,400	2,383	157	72
					3,400	3,029	157	147

g) Interest rate risk management

The consolidated entity 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 50 basis points higher or lower and all other variables were held constant, the consolidated entity's:

- net profit would increase by $11 thousand and decrease by $11 thousand (2007: increase by $7 thousand and decrease by $7 thousand). This is attributable to the consolidated entity's exposure to interest rates on its variable rate borrowings.

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

33. Financial instruments (cont'd)

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 entity. The consolidated entity has adopted a 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 entity 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 by the audit committee annually. The consolidated entity 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, debtors insurance cover is purchased.

The consolidated entity 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 entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

i) Fair value of financial instruments

The carrying amount of all financial assets and liabilities are recorded at their fair value.

j) Liquidity risk management

The consolidated entity 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 32(b) is a listing of undrawn facilities that the company/consolidated entity has at its disposal to further reduce liquidity risk.

Maturity profile of financial instruments

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

2008	Average Interest Rate $'000	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		
Financial Liabilities							
Overdraft	11.62%	852	-	-	-	-	852
Commercial Bills	9.41%	-	5,000	-	1,300	-	6,300
Finance Lease & Advance	5.97%	24	48	136	90	-	298
Forward Exchange Contracts (receivable)		-	(498)	(1,264)	(262)	-	(2,024)
Forward Exchange Contracts (payable)		-	479	1,185	242	-	1,906
Trade payables		-	4,379	-	-	-	4,379
Payable to directors		77	-	-	-	-	77
Debtor Finance Facility	3.00%	787	2,121	256	-	-	3,164
		1,740	11,529	313	1,370	-	14,952

33. Financial instruments (cont'd)

2007	Average Interest Rate $'000	Less than 1 month $'000	Interest Rate Maturity 1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	5 + years $'000	Total $'000
Financial Liabilities							
Commercial Bills	7.43%	-	5,000	-	1,180	-	6,180
Forward Exchange Contracts (receivable)		-	(159)	-	-	-	(159)
Forward Exchange Contracts (payable)		-	139	-	-	-	139
Trade payables		-	5,688	-	-	-	5,688
Payable to directors		75	-	-	-	-	75
Finance Lease & Advance	7.84%	21	42	118	53	-	234
		96	10,710	118	1,233	-	12,157

34. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Shares acquired %	Cost of acquisition $'000
2008				
None				
2007				
Coherent Lasers (Aust) Pty Ltd, trading as Ellex Australia Pty Ltd	Distribution of ophthalmic equipment	1 October 2006	80	816
Innovative Imaging, Inc.	Manufacture & distribution of ophthalmic equipment	1 December 2006	100	3,516
				4,332

34. Acquisition of businesses (cont'd)

2007	Ellex Australia Pty Ltd			Innovative Imaging Inc			
	Book value	Fair value adjustment	Fair value on acquisition	Book value	Fair value adjustment	Fair value on acquisition	Total fair value on acquisition
Net assets acquired	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current assets							
Cash & cash equivalents	-	-	-	150	-	150	150
Trade & other receivables	-	-	-	306	-	306	306
Inventories	52	-	52	593	-	593	645
Other assets	-	-	-	16	-	16	16
Non-current assets							
Capitalised development costs	-	-	-	-	592	592	592
Property, plant & equipment	-	-	-	-	122	122	122
Current liabilities							
Trade & other payables	-	-	-	(120)	-	(120)	(120)
	52	-	52	945	714	1,659	1,711
Goodwill on acquisition							2,621
							4,332

Additional stock exchange information as at 19 September 2008

Number of holders of equity securities

Ordinary share capital

- 68,530,839 fully paid ordinary shares are held by 3,346 individual shareholders.

All issued shares carry one vote per share.

Options

- 3,899,999 Employee options are held by 9 individual option holders. All options are subject to vesting rules based on meeting revenue and profit growth targets and expire between 31 August 2009 and 31 August 2011.

Options do not carry a right to vote.

Distribution of holders of equity securities

	Ordinary Shares	Employee Options
1 - 1,000	268,020	-
1,001 - 5,000	2,810,934	-
5,001 - 10,000	4,205,236	-
10,001 - 100,000	19,519,954	-
100,001 and over	41,726,695	9
	68,530,839	9
Holding less than a marketable parcel	1,566	-

Substantial shareholders

	Fully paid	
Ordinary shareholders	Number	Percentage
ANZ Nominees Ltd	6,620,377	9.66%
Citicorp Nominees Pty Limited <CFS Developng Companies A/C>	4,478,514	6.54%
Sedico Pty Ltd	3,566,034	5.20%

Additional stock exchange information as at 19 September 2008

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid	
	Number	Percentage
ANZ Nominees Limited	6,620,377	9.66%
Citicorp Nominees Pty Limited <CFS Developng Companies A/C>	4,478,514	6.54%
Sedico Pty Ltd	3,566,034	5.20%
Intertec Healthcare Management LLC	2,750,000	4.01%
Pine Street Pty Ltd <Pine Street A/C>	2,460,000	3.59%
Mr Giuseppe Canala + Mrs Mira Canala <Giuseppe Canala S/F A/C	1,758,548	2.57%
JP Morgan Nominees Australia Limited	1,345,697	1.96%
HSBC Custody Nominees (Aust) Limited	1,344,015	1.96%
Unley Underwriters Pty Limited	1,107,424	1.62%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan Super Fund A/C	1,030,000	1.50%
Mr Alex Sundich + Mrs Gabrielle Upton	1,000,000	1.46%
Citicorp Nominees Pty Limited	936,937	1.37%
Ms Choi Chu Lee	853,000	1.24%
Mr Anthony Mark Van Der Steeg	845,965	1.23%
Mr Peter Joseph Falzon	760,000	1.11%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan	570,500	0.83%
Forbar Custodians Limited <Forsyth Barr Ltd - nominee a/c>	563,779	0.82%
Big Blue One Investments Pty Ltd	500,000	0.73%
ASB Nominees Limited	444,877	0.65%
Mr Kevin Paul McGuinness	398,333	0.58%
TOTAL	**33,334,000**	**48.64%**

The Company is not currently undertaking an on-market buy-back.

Company Secretary

Anthony Mitchell, BEc, CPA, MBA

Share Registry

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