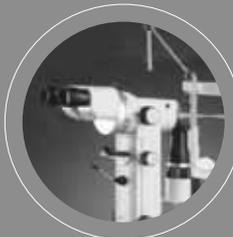


Ellex Medical Lasers Limited

ABN 15 007 702 927



ellex

2001 Annual Report

Directors

| David J. Lindh
LLB, FTIA, FAICD (Chairman)

| Victor Previn
B.Eng (Chief Executive Officer)

| Geoffrey G. Hill
B.Econ, MBA, FCPA, ASIA, FAICD

Company Secretary

| Greg Frisby
MAICD

Registered Office

258 Halifax Street
Adelaide, South Australia 5000
Telephone (08) 8223 6644
Facsimile (08) 8232 6277

Legal Advisers

| Phillips Fox Lawyers
19-29 Young Street
Adelaide, South Australia 5000

Auditors

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

Share Registry

| Computershare Investor
Services Pty Limited
ACN 078 279 277
Level 11, 115 Grenfell Street
Adelaide, South Australia 5000
Telephone (08) 8236 2300
Facsimile (08) 8236 2305

Web Address

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

Stock Exchange

The Company is listed on
the Australian Stock Exchange

ASX Code

ELX



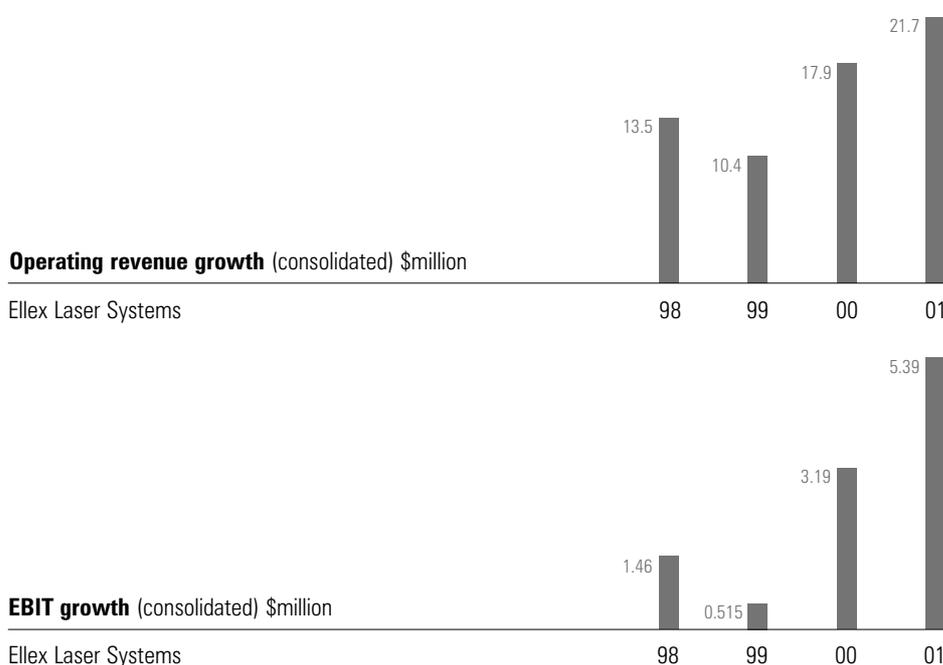
highlights **of the new business**

acquired after the financial year end

01 | 01

Ellex Medical Lasers Limited (*previously Gemstone Corporation of Australia Limited*) acquired the shares of Taracan Pty Ltd, trading as Ellex Laser Systems, for \$23.78 million after the financial year end. Set out below are the highlights of the new business for the year prior to acquisition.

- Ellex Laser Systems achieved an outstanding full-year result that was significantly ahead of management's budget.
- Operating revenue of Ellex Laser Systems increased 21% to \$21.7 million and consolidated Earnings Before Interest and Tax (EBIT) increased 69% to \$5.39 million.
- Launch of new photocoagulator expands product range and enables entry into the estimated US\$150 million retinal surgical laser market.
- New photocoagulator product received United States FDA approval and European CE Marking which enables product sales and marketing across the world.
- New operating premises purchased in Gilbert Street, Adelaide, which will increase production capacity to meet anticipated growth in demand generated by the release of Ellex's new photocoagulator device.



Contents

Chairman’s Review	3	
Chief Executive Officer’s Review	5	
Overview Ellex Laser Systems	7	
Profiles of Directors	11	
Performance of Ellex Laser Systems	13	
Directors’ Report	14	
Independent Audit Report	17	Financial Statements of the Former Gemstone Corporation of Australia Ltd
Directors’ Declaration	18	
Financial Statements	19	
Shareholder Information	32	
Glossary of Terms	<i>inside back cover</i>	



Chairman's review

03 | 01



I am pleased to report that during the financial year under review, the company positioned itself successfully for the complete change of activities from mining to a medical technology manufacturer. The acquisition of Ellex Laser Systems

took place after balance sheet date on 16 July 2001.

The year to the 30th June

In the year to 30 June 2001, the company (*then called Gemstone Corporation of Australia Limited*):

» on 4 August 2000, finalised a share and option rights issue, which raised \$1.09 million working capital for the company;

» continued to investigate various options to dispose of its mining operations;

» continued to investigate various investment propositions to increase shareholder value;

» continued to defend litigation begun by the company's former Managing Director in the United States; and

» on 1 June 2001, entered into an agreement to acquire Ellex Laser Systems.

The period since balance sheet date

Since 30 June 2001, the company (*now called Ellex Medical Lasers Ltd*):

» on 13 July 2001, completed a share placement to raise \$24.0 million to fund the Ellex Laser Systems acquisition;

» on 16 July 2001, completed the acquisition of Ellex Laser Systems;

» on 25 July 2001, finalised a share and option rights issue which raised \$2.23 million working capital;

» on 16 August 2001, received advice that the US claim by the former Managing Director had been struck out completely;

» on 20 September 2001, completed the purchase of new operating premises, at 74-86 Gilbert Street, Adelaide; and

» on 5 September 2001, entered into a contract to dispose of its mining operations.

The future
certainly looks to be
both exciting and
profitable

Shareholders will note therefore, that the last six months has seen a complete change in the company's direction. That future certainly looks to be both exciting and profitable.

We have accordingly prepared this report to include not only the result of Ellex Medical Lasers Limited, but also some details of the results to 30 June 2001, of the business subsequently acquired.

Ellex Laser Systems Business

The company has advised the market of the outstanding financial results of Ellex Laser Systems for the year leading to its acquisition. Ellex Laser Systems consolidated Earnings Before Interest and Tax (EBIT) of \$5.39million or 69% higher than in the previous corresponding period. The core business will continue to be fundamentally sound, with significant growth prospects.

The Future

The opportunity exists for Ellex Medical Lasers Ltd to expand its existing markets and to penetrate new markets by extending its product range. The new range of photocoagulators for the treatment of retinal disease has now received both FDA approval in the United States and CE Mark approval in Europe. Global sales for treating retinal problems are estimated at \$280 million per year. Further improvements in health standards, particularly in third world countries, should see further growth in this area.

The company has also identified new business opportunities with the potential to significantly increase growth over the next few years. Ellex Laser Systems has a relatively low gearing ratio and is in a position to take advantage of any new developments in the industry.

Ellex is a significant exporter and is planning to develop its sales base over a wider range of countries as new distribution outlets are developed. In its major markets, Ellex's ophthalmic (eye) surgery products are used in non-elective surgery to treat eye disease. As such, sales of photodisruptors and photocoagulators are not directly linked to consumer expenditure and the global economic cycle and are less likely to suffer from any economic downturn.

Chief Executive Officer

The board is currently considering applications for this position. A number of candidates look promising, and I expect to be in a position to make an announcement on this appointment around the time of the Annual General Meeting.

Finally, may I express my appreciation to all those shareholders, both the new and the old, who have shown faith in the future of our company. I hope that we can now all reap the benefits of our new business.



David J. Lindh | Chairman

Chief Executive Officer's review



I am able to report that the business acquired on 16 July 2001
- Ellex Laser Systems (Ellex) completed the year to 30 June 2001

with a result that exceeds all previous results. Ellex commenced trading in 1990. Following a decade of growth and profitable trading, Ellex sales revenues reached \$21.7m this year, with a consolidated Earnings Before Interest and Tax of \$5.39 million. This represents an increase of 69% on the previous year's result. Such an outstanding result is well ahead of industry averages.

During the year, Ellex has achieved a number of important milestones:

- » Our flagship product, the Nd:YAG laser photodisruptor, used for post-cataract eye surgery, maintained its position as the largest selling range in the global ophthalmic (eye surgery) market.
- » More than half of all Nd:YAG laser photodisruptors sold in the world this year were manufactured in Australia by Ellex.
- » Exports from Australia peaked at 95% of our revenues.
- » We sold 790 lasers into the global market.
- » Our total installed base exceeded 3,500 laser systems.

Ellex is the dominant supplier of Nd:YAG laser photodisruptors in the global market.

Late this year, Ellex had achieved another strategically important milestone. A project begun in earnest at the start of the financial year to develop a new laser for the retinal surgery market has yielded results.

Our product, the Integre™532, is a fully integrated photocoagulator laser system. The product is expected to open up a new market sector for Ellex that is predicted to be five times the size of the market segment

in which Ellex currently operates. As the distribution network for this segment is the same as our existing network, this should position the company for immediate growth.

FDA approval for the product was granted in March 2001.

To date, the response from the market has been very positive and we believe that the Integre™532 will be a significant contributor to the company's future revenue growth.

...the response from
the market has been
very positive ...

In the few months since the acquisition, Ellex has achieved some important milestones including:

- » the purchase of new premises in Adelaide to house the company's operations under a single roof and provide for the company's anticipated growth; and

- » CE Mark approval for the Integre™532, making it possible for the company to market and sell the product in Europe and related countries that accept the CE Mark.

Recent company structural changes and the resulting increase of corporate reporting requirements lead us to believe that we will need to source experienced and energetic people to add value at the board level. Over the coming year, we will be seeking suitably qualified people with appropriate industry experience who can join the board as non-executive directors.

On behalf of all management, I would like to acknowledge and thank our staff, numerous suppliers, our international distributors that cover some 80 countries and, most importantly, all our loyal customers who have all played a part in contributing to this outstanding result.

Our US-based subsidiary, Laserex Systems Incorporated, of Minneapolis, Minnesota, has contributed significantly to our successful result. Our partners from LSI deserve congratulations on a superb result.

During the first months of Ellex Medical Lasers Ltd, I have had the opportunity to lead the company as the acting CEO. This period has been, and will continue to be, a challenging and exciting time for all the staff and I am pleased I am able to facilitate this period of change and growth. On the appointment of a new Chief Executive Officer, I look forward serving the company in my new role as the Director of Business Development.



Victor Previn | CEO

Ellex Laser Systems

The Business

Ellex Laser Systems (Ellex) has a proven business formula and strong record of success. The company is internationally recognised as a leading manufacturer of solid-state medical laser equipment for the global ophthalmic market. It has leading edge technology, a reputation for innovation and a well-established global distribution network. Ellex has grown annual sales from \$13.5 million in 1998 to more than \$21.7 million in 2001 and has grown net profit from \$0.69 million to \$3.25 million over the same period.

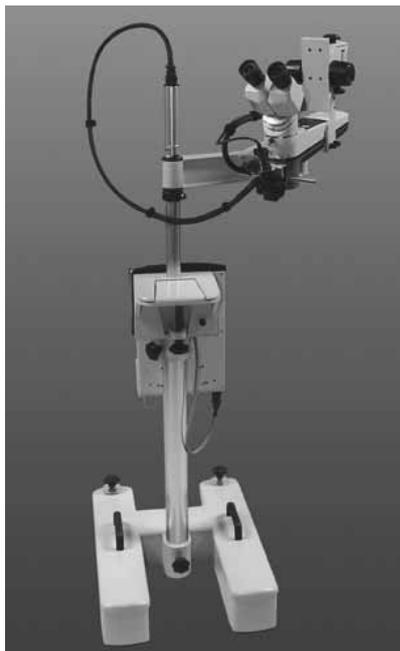
Ellex's Nd:YAG photodisruptor lasers have state-of-the-art features and a unique modular design that offers manufacturing and field maintenance advantages. Ellex's products use many common modules across the product range, which results in ease of installation and service, as single modular assemblies can be removed quickly and replaced in the field. Ellex's newly released photocoagulator laser for the retinal surgery market has been designed with the same features and modular design that has successfully established Ellex's products as the

| Ellex aims to become the world market leader
in the manufacture and supply
of solid state lasers
to the world ophthalmic market |

Ellex's core business is the development, manufacture and international marketing of a range of photodisruptor devices, based on solid-state laser technology, for the cataract surgery market. Success in this business has resulted in the company having an installed base of over 3,500 lasers worldwide and more than 50% of the world's photodisruptor sales.

premier photodisruptor devices worldwide.

Ellex is one of the few companies in Australia to have FDA and CE Mark approval for the sale of its laser medical devices in the US and throughout Europe. Its quality assurance program ensures that Ellex manufactures to stringent world standards based on the requirement of Europe's CE Mark, the FDA's Good Manufacturing Practice requirements and the ISO 9001 International Quality System Standard.



Ellex manufactures for Original Equipment Manufacturer (OEM) customers, including Alcon and Lumenis, and also exports ophthalmic lasers under its own Laserex brand. A total of 95% of Ellex's sales for the full year ended 30 June 2001 were generated outside Australia and the company has become the dominant global supplier of photodisruptor devices.

Ellex uses a streamlined product delivery process from customer order to shipment and its production is largely

Ellex is not a capital-intensive company and its major investment is its design and development program. Historically, Ellex has invested approximately 10% of its sales revenue on design and development to help fuel future growth. The result has been that Ellex's current range of lasers are the leading products in their field.

Ellex has a stable, highly qualified and dedicated workforce of around 100 people and a capable, highly skilled, energetic and hands-on senior management team that provides strong

| The company will focus on increasing the sale of existing photodisruptor devices, further developing its photocoagulator market share, and increasing its spare parts and accessories business |



an assembly operation with final mechanical, electronic and optical assembly carried out in-house. The company sources parts from various suppliers around the world and usually has several sources from which to choose.

flexible leadership. Management's emphasis is continual learning and the development of an innovative and highly productive team culture.

Future Growth Opportunities

Photodisruptor laser devices for the cataract surgery market

Ellex aims to build on its history of strong sales and profit growth in the photodisruptor market and continue to deliver solid earnings growth by:

- » Pursuing a more active marketing campaign of its Laserex brand, particularly throughout Europe and Asia.
- » Strategic marketing arrangements of OEM products.

Release of the new Photocoagulator laser devices for the retinal surgery market

Ellex is anticipating strong revenue growth with the release of the new range of photocoagulator devices manufactured specifically for the retinal surgery market. The photocoagulator market is a significantly larger market than the photodisruptor market, with current world sales estimated to be US\$150 million a year, compared to US\$30 million for the photodisruptor.

Ellex's impending expansion into this market is complementary with its

Expansion of Accessories and Spare-parts Business

Accessories and spare parts are increasingly becoming a growth sector for future business expansion, due to Ellex's increasing customer base and the ageing of its existing installed base of over 3,500 systems. Ellex has an extensive range of accessories that complement its range of products and spare parts, which include field replaceable modules that provide a greater ease of installation and service.

Business Opportunities

Ellex's management team will actively assess further research and acquisition opportunities that fit the future growth of Ellex's existing core business and business strategy.

Ellex Medical Lasers Limited has a relatively low geared balance sheet that offers management the flexibility to actively pursue business opportunities.

| Significant growth is expected through the company's entry into other larger segments of the medical laser market with the release of new medical ophthalmic products |

» Extending the current product range and continuing to increase market penetration with its range of photodisruptor products.

» Developing a combination Nd:YAG photodisruptor platform that will combine with a photocoagulator.

» Leveraging its technology platform and manufacturing expertise into the expanding medical laser market sector.

established customer base, global distribution network and delivery of a product that will be the only fully integrated photocoagulator device in the market.

Ellex will be aiming to capitalise on the release of the new photocoagulator laser with the further development of a full range of Laserex photocoagulators.

Growth in the Ophthalmic Market

Ellex is well positioned to exploit the growth from developing markets, where expected demand for eye care exceeds that in Ellex's existing markets. Ellex expects to release a range of new products into the market place over the next two years. These products will complement Ellex's existing product range, and are expected to contribute to increased sales revenues.

Operations/Manufacturing Facilities

Ellex has recently acquired new premises at 74-86 Gilbert Street, Adelaide, that will enable the company's operations to be located in one building and facilitate the anticipated expansion. Management views this move as an integral step in increasing the manufacturing and operational capacity and efficiencies of the business. It is expected that the moving of Ellex's current operations from four sites in Halifax Street, Adelaide, to the new premises will take place before early next year.

Ellex's operations in Adelaide have a strategic advantage. Adelaide is the national centre for electro-optics and the social-economic climate of Adelaide provides the company with a low operational cost base. This allows Ellex to be extremely competitive in the international market.



Profiles of Directors



David Lindh LLB, FTIA, FAICD | Chairman
is a solicitor, consultant and company director with over 30 years experience. He is chairman and a director of a number of public and private companies, as well as government and non-profit organisations.

Mr Lindh is a consultant with Phillips Fox Lawyers and advises in the area of corporations and securities law, government and international trade. He has been adviser to the South Australian Government on various commercial matters, including restructuring, corporatisation and privatisation matters.



Geoffrey Hill B.Ec (Syd), MBA, FCPA, ASIA, FAICD |
Geoffrey Hill has had extensive experience as a merchant banker over the past 30 years in both the Australian and international equity markets, having begun his career in investment banking as a portfolio manager with Development Finance Corporation Limited in 1968.

Mr Hill's exposure to, and involvement in, funds management continues today where he sits on the boards of a number of companies. Mr Hill was director of Morgan Grenfell & Co Plc and was former managing director of Morgan Grenfell Australia Limited.

Mr Hill is a director of a number of public companies, including Auspine Limited (Chairman) and Hills Industries Limited.



Victor Previn B.Eng | Chief Executive Officer
is one of the original founders of Ellex with a career spanning 24 years in the laser industry. He is a professional engineer with a degree in Electronics Engineering from the University of South Australia. Mr Previn initially worked for Quentron Electronics Pty Ltd, an Adelaide-based supply house for laser and scientific equipment targeted at the R&D and scientific markets.

Mr Previn was responsible for developing the technology platform that is the core of Ellex's current product range and was involved in its commercialisation. After establishing Ellex, he left the business to pursue other interests in the laser industry, travelling extensively internationally and spending considerable time in the US in a business development capacity. He returned to Ellex in 1996 to take charge of product development. Victor Previn is primarily responsible for the continuing operation and profitability of the business conducted by Ellex.



The Ellex Management Team: International Marketing Manager Lee Walker-Roberts (left), Financial Controller Kevin Playdon, Chief Executive Officer Victor Previn, General Manager - Operations Graham Eagles, Engineering Manager Malcolm Plunkett, Customer Service Manager Tonnet Penascoza, Quality Assurance Manager Mark Allen and Production Manager Basil Fermantzis.



Greg Frisby MAICD | Company Secretary

Has over 25 years experience in the Banking, Merchant Banking & Finance industries in Australia. He is currently a Director of Edison Corporation Pty Ltd and Langhorne Creek Premium Vineyards Pty Ltd.

Operating Results of Ellex Laser Systems

13 | 01

Please note: The results contained in the table below represent Ellex Laser Systems consolidated historical operating performances compared to the Pro Forma 2001 consolidated results for Ellex Laser Systems/Ellex Medical Lasers Limited (formerly Gemstone Corporation of Australia Ltd).

Ellex Laser Systems, the business newly acquired by Ellex Medical Lasers Limited on 16 July 2001.

Comparison of operating results (\$'000)	Ellex Laser Systems				Pro Forma consolidation*
	1998	1999	2000	2001	2001
Statement of financial performance					
Operating revenue	13,471	10,355	17,939	21,661	21,662
Total cost of goods sold	(8,451)	(5,566)	(10,769)	(11,671)	(11,671)
Total other expenses	(3,738)	(4,106)	(4,163)	(5,713)	(6,198)
Total other revenue	304	(27)	333	1,289	1,289
EBITDA	1,586	656	3,340	5,566	5,082
Depreciation and amortisation	(128)	(141)	(151)	(180)	(192)
EBIT	1,458	515	3,189	5,386	4,890
Interest and expense	(13)	(49)	(74)	169	202
Net profit before tax	1,445	466	3,115	5,555	5,092
Tax expense	(507)	(69)	(1,111)	(2,100)	(2,100)
Net profit after tax	938	397	2,004	3,455	2,992
Outside equity interest	(253)	(46)	(179)	(204)	(204)
Net profit after tax after minorities	685	351	1,825	3,251	2,788

* Represents the Pro Forma consolidation for Ellex Laser Systems and Ellex Medical Lasers Limited

The directors present their report on the financial statements of the company for the year ended 30 June 2001.

(a) Directors

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

DJ Lindh (Chairman of Directors)

David Lindh was appointed a director on 4 April 2000. He has over 30 years experience as a commercial lawyer and Company Director, and he is a director of a number of public and private companies and also government boards.

GG Hill (Director)

Geoff Hill was appointed as a director on 4 April 2000. He has been a merchant banker and corporate advisor for over 30 years in Australia and overseas. He is also a director of other private and public companies.

V Previn (Director)

Victor Previn was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. He is currently acting Managing Director.

DWS Johnson

David Johnson resigned as a Director on 14 June 2001.

PM Finlayson

Peter Finlayson resigned as a Director on 18 July 2001.

(b) Principal Activities

The principal activities of the company during the year ended 30 June 2001, were the mining and wholesaling of jade, and the investment of funds surplus to immediate requirements. No significant change in the nature of those activities occurred during the year. Ellex Laser Systems was acquired on 16 July 2001.

(c) Review of operations

The company continued mining operations of jade at Cowell in South Australia during the year on a minimal basis.

On 16 July 2001 the company acquired the whole of the issued capital of Taracan Pty Ltd trading as Ellex Laser Systems and its controlled entities for the sum of \$23,775,000. Funds for the purchase were raised by way of a Rights Issue and Share Placement.

(d) State of Affairs

No significant change in the state of affairs of the Company occurred during the year, other than incurring an operating loss for the year of \$462,497.

(e) Dividends

No dividend has been paid or declared since the commencement of the financial year. The directors do not recommend the payment of a dividend at this time.

(f) Shares and Options

The following shares and options were issued during the year:

- » On 13 July 2000 1,726,310 shares were issued at 7 cents each, together with 1,726,310 options. The options are exercisable at 20 cents each and expire on 31 May 2002.
- » On 4 August 2000 12,243,259 shares were issued at 7 cents each, together with 12,243,259 options. The options are exercisable at 20 cents each and expire on 31 May 2002.

As at 30 June 2001, 27,939,138 of ordinary shares were on issue, these were converted to 5,587,838 ordinary shares as a result of the one for five consolidation.

The following shares and options were issued pursuant to the one for five consolidation, rights issue to all shareholders and the share placement and prospectus offer and have been issued since the end of the financial year:

- » On 17 July 2001 48,000,000 shares were issued at 50 cents.
- » On 25 July 2001 4,698,210 shares were issued under the rights issue together with 4,698,210 options, the options exercisable at 50 cents and expire 25 July 2004.
- » On 25 July 2001 7,000,000 options were issued to DJ Lindh, GG Hill, V Previn, and Taylor Collison Limited (Underwriter for the share issue), exercisable at 50 cents by 25 July 2004.
- » On 25 July 2001 4,000 shares were issued at 50 cents pursuant to the compliance prospectus.

(g) Subsequent Events

No matter or circumstance has arisen since 30 June 2001 which had or could have a significant effect on the Company's operations, the result of those operations, or its state of affairs in subsequent years, other than:

- a) the issue of shares referred to (f) above,
- b) the acquisition of Taracan Pty Ltd and controlled entities, for \$23,775,000 as disclosed in Note 23 to the financial statements,

(h) Future Developments

The company is now focussing on the development of the Ellex Medical Laser business being the manufacture and distribution worldwide of medical laser equipment for use in Ophthalmic surgery.

(i) Corporate Governance Practices

The directors of Ellex are committed to the maintenance of high standards of ethics and accountability by themselves and employees of the company.

Directors

The board presently consists of two non-executive directors and one executive director.

The board is currently in the process of appointing a Managing Director. The board is also considering the appointment of another non-executive director with expertise appropriate to the Company's business.

The company's constitution provides the rules and process for the appointment, resignation and change in number of directors. The Chairman may authorise the obtaining of independent professional advice by the board or by individuals.

Committees

The board as a whole forms the Remuneration and Audit committees and, while individual directors may undertake specific management review investigations, the Board as a whole determines implementation activities arising as recommendations from such investigations.

Auditors

The adequacy of the external auditors' scope and quality is subject to regular review by the Board.

Significant Business Risk

The directors collectively and individually work to identify significant business risks and to implement appropriate action to minimise any potentially adverse effect upon the value of shareholders' funds.

Code of Conduct

The directors have adopted a code of conduct to guide executives and employees in carrying out their duties and responsibilities.

(j) Legal matters

During the year the Company continued to defend a claim against it in the United States of America by a former Managing Director of Gemstone Corporation of Australia Limited ("Gemstone").

On 16 August 2001 the Company's US lawyers advised that the whole of that claim had been struck out.

(k) Meetings of Directors

A total of 4 meetings of directors were held during the year ended 30 June 2001.

D J Lindh attended 4 meetings.

P M Finlayson attended 3 meetings.

G G Hill attended 4 meetings.

D W S Johnson attended 3 meetings.

(l) Directors' Interests

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

	Interests of Directors		Interests of Director Related Entities	
	Ordinary Shares	Options	Ordinary Shares	Options
DJ Lindh	4,000	4,000	684,680	1,413,092
PM Finlayson	–	–	–	–
GG Hill	–	–	853,911	1,201,911
DWS Johnson	–	–	–	–
V Previn	–	–	3,000,000	3,500,000

(m) Directors' Remuneration

	Salary/Fees	Superannuation	Total
DJ Lindh <i>Non Executive Director</i>	84,578	1,600	86,178
GG Hill <i>Non Executive Director</i>	10,000	800	10,800
PM Finlayson <i>Non Executive Director</i>	10,000	800	10,800
DWS Johnson <i>Non Executive Director</i>	47,927	–	47,927
V Previn <i>Executive Director</i>	–	–	–
	152,505	3,200	155,705

(n) Directors' and Auditors' Indemnification

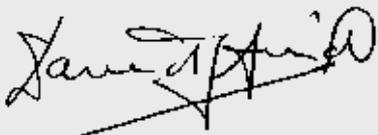
- i. On 9 July 2001, the Company at an extra ordinary general meeting passed a resolution to adopt a Deed of Access and Indemnity for the current directors.
- ii. The Company has not otherwise, during or since the financial year indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against liability incurred as such an officer or auditor.

(o) Change of Name

Gemstone Corporation of Australia Limited changed its name on 17 July 2001 to Ellex Medical Lasers Limited. For market purposes the name change was effective from Tuesday 31 July 2001.

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

On Behalf of the Directors



David J. Lindh | Chairman

31 August 2001

Deloitte Touche Tohmatsu
 A.B.N. 74 490 121 060
 Deloitte House
 190 Flinders Street
 Adelaide SA 5000
 GPO Box 1969
 Adelaide SA 5001 Australia

DX 664
 Telephone (08) 8407 7000
 Facsimile (08) 8407 7001
 www.deloitte.com.au

**Deloitte
 Touche
 Tohmatsu**

17 | 01

INDEPENDENT AUDIT REPORT TO THE MEMBERS
OF ELLEX MEDICAL LASERS LIMITED

Scope

We have audited the financial report of Ellex Medical Lasers Limited for the financial year ended 30 June 2001 as set out on pages 18 to 31. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

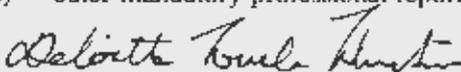
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards issued in Australia and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

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

Audit Opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2001 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.


 DELOITTE TOUCHE TOHMATSU


 S T HARVEY
 Partner
 Chartered Accountants

Adelaide, 31 August 2001

The directors declare that:

- (a) The attached financial statements and notes comply with accounting standards;
- (b) The attached financial statements and notes give a true and fair view of the financial position and performance of the company;
- (c) In the directors' opinion, the attached financial statements and notes are in accordance with the Corporations Act 2001; and
- (d) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'David J. Lindh', with a horizontal line drawn underneath it.

David J. Lindh | Chairman

31 August 2001

Financial Statements 19|01

	Notes	2001 \$	2000 \$
Current assets			
Cash assets	2	375,667	200,321
Receivables	3	24,478	1,525
Inventories	4	119,500	136,500
Other financial assets	5	487,418	3,814
Current tax assets	6	768	–
Total current assets		1,007,831	342,160
Non-current assets			
Investments	7	7,500	7,500
Property, plant and equipment	8	70,330	84,412
Other	9	60,000	100,000
Total non-current assets		137,830	191,912
Total assets		1,145,661	534,072
Current liabilities			
Payables	10	330,800	82,639
Provisions	11	–	4,603
Other	12	25,000	113,670
Total current liabilities		355,800	200,912
Total liabilities		355,800	200,912
Net assets		789,861	333,160
Equity			
Contributed equity	13a	5,155,715	4,236,517
Accumulated losses	13b	(4,365,854)	(3,903,357)
Total equity		789,861	333,160

The accompanying notes form part of these financial statements

	Notes	2001 \$	2000 \$
Revenue from ordinary activities	14	33,684	16,543
Reduction in value of inventories		(17,000)	–
Devaluation of mining leases		(40,000)	–
Legal fees		(160,841)	(104,102)
Depreciation and amortisation expense		(11,659)	(16,747)
Accounting fees		(47,927)	(36,632)
Consultancy fees		(65,269)	(18,091)
Salary and wages		(24,616)	(66,875)
Other expenses from ordinary activities		(128,869)	(141,952)
Loss from ordinary activities Before income tax expense		(462,497)	(367,856)
Income tax expense relating to ordinary activities	15	–	–
Net loss		(462,497)	(367,856)
Total changes in equity other than those resulting from transactions with owners as owners		(462,497)	(367,856)
Earnings per share - Basic (cents per share)		-2 cents	-3 cents
Earnings per share - Diluted (cents per share)		-2 cents	-3 cents

The accompanying notes form part of these financial statements

	Notes	2001 \$	2000 \$
Cash flows in respect of operating activities			
Receipts from customers and other debtors		160	13,198
Payments to suppliers and employees		(489,517)	(325,120)
Interest received		29,361	3,511
Net cash flows used in operating activities	20	(459,996)	(308,411)
Cash flows from investing activities			
Acquisition costs for purchase of business	5	(130,148)	–
Purchase of property, plant and equipment		–	(1,100)
Sale of property, plant and equipment		723	–
Deposit from potential purchaser of jade business	12	25,000	–
Net cash flows from investment activities		(104,425)	(1,100)
Cash flows from financing activities			
Cost of share issue	5	(65,761)	–
Proceeds of share issue	13a	864,200	182,000
Costs of rights issue	13a	(58,672)	–
Funds held pending allotment of shares	12	–	113,670
Net cash flows from financing activities		739,767	295,670
Net (decrease)/increase in cash held		175,346	(13,841)
Cash at beginning of the year		200,321	214,162
Cash at the end of the year	2	375,667	200,321

The accompanying notes form part of these financial statements

1. Statement of accounting policies

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law. The financial report has been prepared on an accrual basis, is based upon historical costs, and does not take into account changing money values or current valuations of non-monetary assets.

Significant Accounting Policies

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

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

(a) Accounts payable

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

(b) Cash

For the purposes of the statement of cash flows, cash includes cash on hand, in bank accounts, and money market instruments, and which are used in the cash management function on a day-to-day basis.

(c) Comparatives

Comparative figures are for the 12 months ended 30 June 2000. The company has adopted the presentation and disclosure requirements of Accounting Standards AASB 1018 "Statement of Financial Performance", AASB 1034 "Financial Report Presentation and Disclosure" and AASB 1040 "Statement of Financial Position" for the first time in the preparation of this financial report. In accordance with the requirements of these new/revised Standards, comparative amounts have been reclassified in order to comply with the new presentation format. The reclassification of comparative amounts has not resulted in a change to the aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities or equity, or the net profit/loss of the company as reported in the prior year financial report.

(d) Employee Entitlements

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements arising from wages, salaries and annual leave have been recorded at their nominal amount.

Contributions by the company to employees' superannuation funds are recorded as an expense when incurred.

(e) Foreign Currency Transactions and Balances

Foreign currency transactions during the financial year have been converted to Australian currency using the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted to the rates of exchange applicable at that date.

Gains and losses from conversion from foreign currencies assets and liabilities, whether realised or unrealised, are included in the operating profit or loss as they occur.

(f) Goods and services tax (GST)

Revenues, expenses, and assets (other than receivables) are recorded exclusive of any amounts of GST. Receivables and payables are recorded inclusive of any applicable GST.

The net amount of GST recoverable from the Australian Taxation Office is included as part of Other assets in note 3.

(g) Income tax

Tax effect accounting principles have been adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The future income tax benefit arising from tax losses has not been brought to account as realisation of any benefit arising from the recoupment of past losses is not considered virtually certain and the company no longer complies with the conditions for deductibility imposed by taxation legislation.

No provision has been made for any capital gains tax which may be payable in the event of sale of any assets, and no decision has been made to sell any assets.

(h) Inventories

Finished goods and raw materials are valued at the lower of cost and net realisable value.

(i) Mining leases**(i) Policy of valuation**

The carrying value of each area of interest is reviewed annually by the directors to determine whether the value is appropriate for mining leases. No amortisation of the asset has been charged to the profit and loss as the current mine production is not a material proportion of total reserves.

(ii) Method of valuation

The book value represents the directors' estimated net value to the company, either from cash flows generated from sale of minerals or sale of the leases.

(j) Property, plant and equipment

All property, plant and equipment is recorded at cost. All assets excluding freehold land are depreciated over their estimated useful lives on either a straight line or diminishing value basis.

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

Buildings	40 years
Plant and equipment	3 - 20 years

(k) Receivables

Trade receivables and other receivables are recorded at amounts due, less any applicable provision for doubtful debts.

(l) Recognition of revenue

Revenue from the sale of goods and the disposal, if any, of other assets is recognised when the company has passed control of the goods or other assets to the buyer.

(m) Recoverable amount of non-current assets

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

(n) Change of company name

On 17 July 2001, the shareholders resolved to change the company's name from Gemstone Corporation of Australia Limited to Ellex Medical Lasers Limited, effective from 31 July 2001.

	2001	2000
	\$	\$
2. Cash assets		
Cash at bank	5,270	16,698
Deposits at call	370,397	183,623
	375,667	200,321
3. Receivables		
Current		
Accrued income	5,354	1,191
GST Receivable	19,124	334
	24,478	1,525
4. Inventories		
Current		
Raw materials, net realisable value	109,000	126,000
Finished goods, at net realisable value	10,500	10,500
	119,500	136,500
5. Other financial assets		
Acquisition costs for the purchase of Taracan Pty Ltd (Ellex Laser Systems) (i)	227,648	–
Cost of raising capital associated with the acquisition of Taracan Pty Ltd (Ellex Laser Systems) (ii)	259,770	–
Prepaid expenses	–	3,814
	487,418	3,814
(i) Costs associated with the acquisition will form part of the capitalised investment once the transaction has settled.		
(ii) Costs of raising capital is to be applied against the proceeds of the share issue to which it relates.		
6. Current tax assets		
Withholding tax refundable	768	–
	768	–
7. Investments		
Non-current		
Mining lease bonds, at cost	7,500	7,500
	7,500	7,500

	2001	2000
	\$	\$
8. Property, plant and equipment		
Freehold land, at cost	28,873	28,873
Buildings, at cost	11,185	11,185
Accumulated depreciation	(3,197)	(2,917)
	7,988	8,268
Plant and equipment, at cost	276,357	282,521
Accumulated depreciation	(242,888)	(235,250)
	33,469	47,271
	70,330	84,412
Aggregate depreciation allocated as an expense during the year:		
Buildings	280	280
Plant and equipment	11,379	16,467
	11,659	16,747

In the opinion of the directors, the book values of land and buildings are not materially different from current valuations.

(a) Movement in Carrying Amounts

	Freehold Land	Buildings	Plant and Equipment	Total
Gross Carrying Amounts				
Balance at 30 June 2000	28,873	11,185	282,521	322,579
Additions	–	–	–	–
Disposals	–	–	(6,164)	(6,164)
Balance at 30 June 2001	28,873	11,185	276,357	316,415
Accumulated Depreciation				
Balance at 30 June 2000	–	(2,917)	(235,250)	(238,167)
Depreciation expense	–	(280)	(11,379)	(11,659)
Disposals	–	–	3,741	3,741
Balance at 30 June 2001	–	(3,197)	(242,888)	(246,085)
Net Book Values				
30 June 2000	28,873	8,268	47,271	84,412
30 June 2001	28,873	7,988	33,469	70,330

	2001 \$	2000 \$
9. Other non-current assets		
Non-current		
Cowell Mining Leases - at recoverable amount	60,000	100,000
10. Payables		
Current		
Trade creditors and accruals	330,800	82,639
11. Provisions		
Provision for employee entitlements	–	4,603
Number of employees at 30 June 2001	–	2
12. Other liabilities		
Deposit from potential purchaser of jade assets	25,000	–
Liability for allotment of shares	–	113,670
	25,000	113,670
<p>The company had received funds from shareholders for the issue of shares and options pursuant to the recent rights issue. The shares and options were issued in July 2000.</p>		
13a. Contributed equity		
Contributed equity		
27,939,138 Fully paid Ordinary shares (2000: 13,969,569)	5,155,715	4,236,517
Share capital at the beginning of the year 13,969,569 (2000: 12,149,569)	4,236,517	4,054,517
Shares issued during the year 13,969,569 fully paid ordinary shares (2000: 1,820,000 shares)	919,198	182,000
Share capital at the end of the year	5,155,715	4,236,517
Options		
13,969,569 (2000: Nil) options exercisable at \$0.20 each and expiring 31 May 2002 were issued and on hand at the end of the year.		
13b. Accumulated losses		
Balance at beginning of financial year	(3,903,357)	(3,535,501)
Net loss	(462,497)	(367,856)
Balance at end of financial year	(4,365,854)	(3,903,357)

	2001	2000
	\$	\$
14. Operating loss		
(a) Operating Revenue		
Sales revenue	160	6,839
Other revenue		
Interest received and receivable	33,524	3,250
Foreign Exchange Gain	–	855
Subsidies	–	5,599
Total operating revenue	33,684	16,543
(b) Expenses		
Devaluation of mining leases	40,000	–
Reduction in value of inventories	17,000	–
Depreciation		
Buildings	280	280
Plant and equipment, motor vehicles and office furniture	11,379	16,467
Total depreciation and other charges against assets	68,659	16,747
Legal fees in relation to US litigation, trade marks, and other matters	160,841	104,102
Superannuation contributions	3,200	6,468
(The company has complied with its obligations under the Superannuation Guarantee Legislation regarding the payment of contributions to a complying fund)		
Provision for annual leave	(4,603)	(142)
Loss on disposal of plant and equipment	1,700	3,259

15. Income tax**(a) Reconciliation to loss from ordinary activities**

The aggregate amount of income tax attributable to the financial year differs by more than 15% from the amount calculated on the operating loss. The differences are reconciled as follows:

Loss from ordinary activities before income tax	462,497	367,856
Income tax benefit @ 34% (2000: 36%)	(157,249)	(132,428)
Tax effect of permanent differences	101	101
Timing differences not brought to account	–	3,549
Tax benefit of losses not brought to account	157,148	128,778
Income tax expense/(benefit)	–	–

(b) Future income tax benefit

Future income tax benefits arising from tax losses and timing differences have not been included as an asset as recovery is not virtually certain, and because the company no longer complies with the conditions for deductibility imposed by taxation legislation.

	2001 \$	2000 \$
16. Remuneration of Directors and Executives		
DJ Lindh was appointed director on 4 April 2000.		
PM Finlayson was appointed a director on 14 April 1997 and resigned on 18 July 2001.		
GG Hill was appointed director on 4 April 2000.		
DWS Johnson was appointed a director on 28 January 1994 and resigned on 14 June 2001.		
Aggregate income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party receivable by directors from the company		
	155,705	63,382
Number of directors whose income from the company was within the following bands		
\$0 - \$9,999	-	3
\$10,000 - \$19,999	2	1
\$30,000 - \$39,999	-	1
\$40,000 - \$49,999	1	-
\$80,000 - \$89,999	1	-
Number of company executives whose income from the company exceeded \$100,000		
	-	-
Aggregate retirement benefits paid to all directors of the company, by the company or any related party		
	-	-
17. Related party information		
(a) Remuneration of directors		
Details regarding remuneration of directors are disclosed in note 16.		
(b) Other transactions with directors and director related entities		
DJ Lindh, a consultant to Phillips Fox, was appointed a director of the company on 4 April 2000. He has provided consultancy services on normal commercial terms and conditions since that date. Phillips Fox have also provided legal services to the company on normal commercial terms and conditions since 4 April 2000.		
Aggregate amounts payable to directors and director related entities, including unpaid directors remuneration as at balance date, and included in Note 16.		
	18,985	10,700
(c) Directors' Interests		
At 30 June 2001 directors and director related entities hold directly, indirectly, or beneficially the following equity interests in the company:		
- Fully paid ordinary shares	4,805,370	1,410,000
- Options	3,395,370	Nil
Directors and their related entities acquired 3,395,370 shares and options on 4 August 2000, pursuant to sub-underwriting of the rights issue offered to all shareholders.		
18. Remuneration of auditors		
Amounts received or due and receivable by the company's auditors for		
Auditing the financial reports	7,000	10,000
Other services	160,364	5,500

	2001	2000
	\$	\$
19. Contingent liabilities		
Secured		
Indemnity guarantees in favour of the South Australian Department of Mines and Energy for the rehabilitation of mining sites.	10,500	10,500
The guarantees are secured by a mining lease bond of \$7,500 and a bank guarantee from the Australia and New Zealand Banking Group Limited for \$3,000.		
Unsecured		
On 14 August 2001 the company was advised by its US lawyers it had been successful in striking out an unfair dismissal claim by a previous managing director of the Company (Gemstone). Consequently no provision for such costs or losses has been made in the financial statements.		
20. Reconciliation of loss from ordinary activities after income tax to net cash outflow from operating activities		
Operating loss after income tax	(462,497)	(367,856)
Devaluation of mining leases	40,000	–
Reduction in carrying value of stock	17,000	–
Loss on disposal of property, plant and equipment	1,700	3,259
Depreciation	11,659	16,747
Increase in provision for employee entitlements	(4,603)	(142)
(Increase)/decrease in receivables	(4,163)	1,021
Increase/(decrease) in creditors	(43,348)	39,337
(Increase)/decrease in prepayments	3,814	(777)
(Increase)/decrease in GST receivable	(18,790)	–
(Increase)/decrease in tax assets	(768)	–
Net operating cash flow	(\$459,996)	(\$308,411)

21. Financial instruments

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

The company has **not** entered into any derivative financial instruments, hedge transactions, or forward contracts for purchase or supply of any currency or commodity.

(a) Interest Rate Risk

The company's exposure to interest rate risk, being the risk that the value of a financial asset or financial liability will fluctuate as a result of changes in interest rates are shown in the table below. All other financial assets and liabilities are non interest bearing.

	Average Interest Rate %	Floating Interest Rate \$	Fixed Rate < 1 year \$	Non Interest Bearing \$	Total \$
2001					
Financial Assets					
Cash at Bank	–	–	–	5,270	5,270
Deposit	3.79%	370,397	–	–	370,397
Total Financial Assets		370,397	–	5,270	375,667

	Average Interest Rate %	Floating Interest Rate \$	Fixed Rate < 1 year \$	Non Interest Bearing \$	Total \$
2000					
Financial Assets					
Cash at Bank	–	–	–	16,698	16,698
Deposits	4.85%	70,000	–	113,623	183,623
Total Financial Assets		70,000	–	130,321	200,321

(b) Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Balance Sheet and notes to the Financial Statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors.

(c) Net Fair Values

The carrying amounts of financial assets and financial liabilities recorded in the Financial Statements at balance date represent their respective net fair values, determined in accordance with the accounting policies disclosed in note 1.

22. Operations by segments

The company operated in the gemstone industry in Australia at all times throughout the current year, and the previous year.

23. Subsequent events

No events have occurred subsequent to balance date which would have a material effect on the financial statements, other than:

(a) the following shares and options being issued :

- » On 17 July 2001 48,000,000 shares were issued at 50 cents.
- » On 25 July 2001 4,698,210 shares were issued under the rights issue together with 4,698,210 options, the options exercisable at 50 cents and expire 25 July 2004.
- » On 25 July 2001 7,000,000 options were issued to D J Lindh, G.G. Hill, V Previn, and Taylor Collison Limited (Underwriter for the share issue), exercisable at 50 cents by 25 July 2004.
- » On 25 July 2001 4,000 shares were issued at 50 cents pursuant to the compliance prospectus.

(b) on 16 July 2001 the company acquired Taracan Pty Ltd trading as Ellex Laser Systems and its controlled entities for \$23,775,000. The acquisition was funded by an issue of 48 million shares as noted above. The rights issue as discussed above funded the underwriting costs, due diligence, legal costs associated with the acquisition, and provided working capital for the company. Taracan Pty Ltd and its controlled entities manufacture and distribute worldwide laser equipment for use in ophthalmic surgery.

Victor Previn a director of Taracan Pty Ltd was appointed to the board of Ellex Medical Lasers Limited on 16 July 2001.

24. Earnings per share

Basic earnings per share	-2 cents	-3 cents
Diluted earnings per share	-2 cents	-3 cents

Weighted average number of ordinary shares outstanding during the year used in the calculation of:

Basic earnings per share	26,790,954	12,578,391
--------------------------	------------	------------

32 | 01 (a) Number of holder of equity securities

Ordinary Share Capital: 58,290,048 fully paid ordinary shares are held by 2,278 individual shareholders. All issued shares carry one vote per share.

Options: 11,695,010 options are held by 425 individual option holders and expire on 25 July 2004. 2,793,923 primary options are held by 171 individual option holders and expire on 31 May 2002.

(b) Distribution of holders of equity securities

(i) Analysis of numbers of holders of equity securities by size of holding:

	Ordinary Shares	Primary Options	Options
1 - 1,000	1,172	66	65
1,001 - 5,000	299	48	269
5,001 - 10,000	255	16	33
10,001 - 100,000	494	34	50
100,001 and over	58	7	8
	2,278	171	425

(ii) There were 1 142 holders of less than a marketable parcel of 883 ordinary shares.

(iii) There were 110 holders of less than a marketable parcel of 3 333 primary options.

(iv) There were 62 holders of less than a marketable parcel of 1 000 options exp 7/2004.

(c) Twenty largest shareholders

	Number	% of Class
Perpetual Trustees Nominees	4,849,700	8.32
RBC Global Services Australia	3,422,319	5.87
Sedico Pty Ltd	3,000,000	5.15
National Nominees Limited	2,656,900	4.56
Chase Manhattan Nominees	2,164,480	3.71
Taycol Nominees Pty Ltd	1,995,686	3.42
Giuseppe Canala	1,500,000	2.57
Commonwealth Custodial	1,400,000	2.40
Bass Equities Fund No 1 Pty Ltd	1,330,000	2.28
Westpac Custodian Nominees	1,310,000	2.25
Commonwealth Custodial	1,200,000	2.06
Unley Underwriters Pty Ltd	1,107,424	1.90
Argo Investments Limited	800,000	1.37
Davan Nominees Pty Ltd	684,680	1.17
HFT Nominees Pty Ltd	580,331	1.00
Government Superannuation	566,200	0.97
Arredo Pty Ltd	500,000	0.86
Victorian Workcover Authority	429,000	0.74
Tayscrip Nominees Pty Ltd	415,294	0.71
RBC Global Service Australia	400,000	0.69
Total	30,311,994	52.00

(d) Substantial shareholders

The company's Register of Substantial Shareholders records the following:

Name	No. of Ordinary Shares held	Percentage of shares issued
N M Rothschild Australia Holdings Pty Ltd	6,850,000	11.75%
Perpetual Trustees Australia Ltd	4,643,799	7.97%
Sedico Pty Ltd	3,000,000	5.15%

Glossary of terms

end | 2001

Photocoagulator A photocoagulator is a device that uses light to coagulate blood vessels by elevating their temperature. It is used to treat diseases of the retina.

Photodisruptor A photodisruptor is a device that uses light to rupture tissue with a plasma initiated acoustic wave. It is used to rupture opaque scar tissue that forms inside a patient's eye. It is used in the treatment of cataracts.

Solid-state state A laser that uses a crystalline active medium rather than liquid or gas

FDA The United States Food and Drug Administration

CE Mark Conformity European - quality system certification

Alcon Alcon Laboratories Incorporated, a company incorporated in the USA (and wholly owned subsidiary of Nestle SA). A major OEM customer of Ellex.

Lumenis A major OEM customer of Ellex. Lumenis is a NASDAQ listed company.
