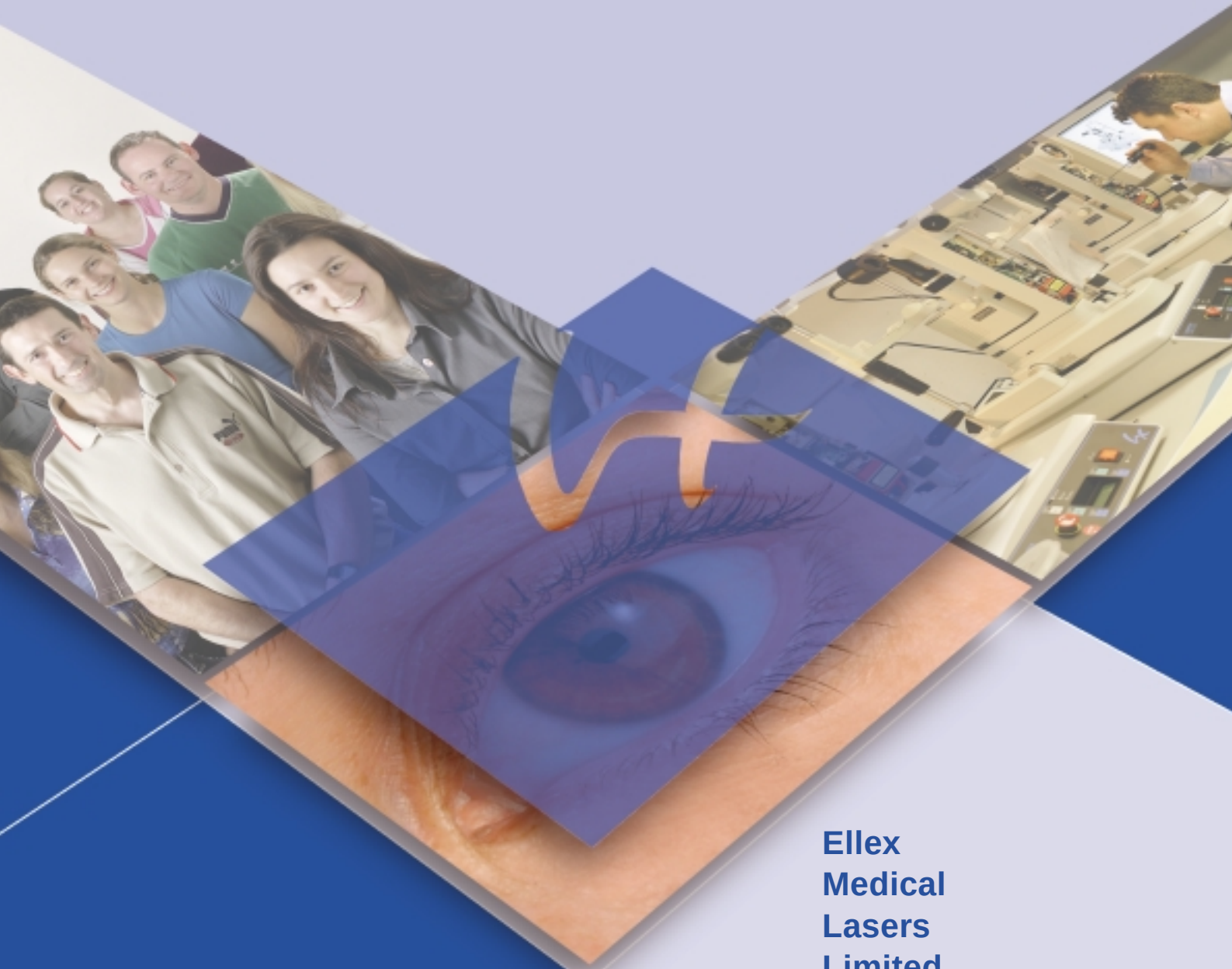


Ellex Medical Lasers Limited

ABN 15 007 702 927

ANNUAL REPORT 2002

Highlights

ELLEX

MEDICAL

LASERS

LIMITED

1 October 2001: Ellex was chosen as the medium sized manufacturer of the year by Business SA. Ellex also received the 'New Product Innovation Award' for the Integre portable photocoagulator.

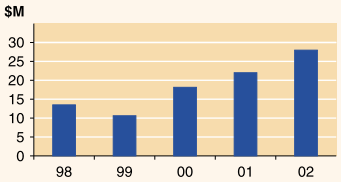
2 January 2002: Ellex successfully relocated its business into the purpose designed facility in Gilbert Street, Adelaide.

3 March 2002: Ellex acquired the outstanding 40% equity in Laserex Systems Inc, of Minneapolis, Minnesota, from Laserboyz Inc. LSI is now a wholly owned US distribution subsidiary of Ellex.

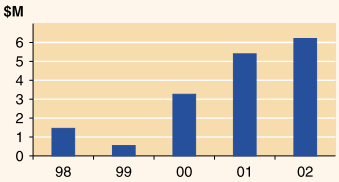
4 April 2002: Ellex displayed to distribution partners and ophthalmologists at the XXIXth International Congress of Ophthalmology (ICO) in Sydney, Australia. More than 8000 ophthalmologists attended.

5 While at the ICO, Ellex announced its agreement with Lumenis to manufacture a new range of ophthalmic laser products for the treatment of both secondary cataracts and glaucoma.

6 A year of strong Financial Performance:



Operating Revenue Growth



EBITDA Growth

CHAIRMAN'S

Review

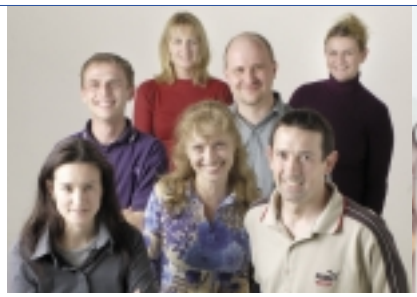
Dear Shareholder

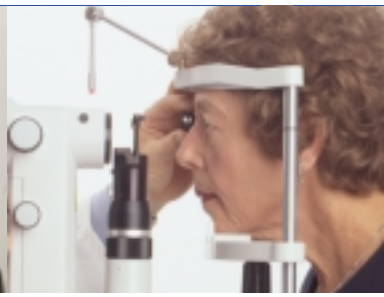
I am pleased to report that the financial year ending 30th June 2002, which was the company's first year since a change of activities to a medical technology developer and manufacturer, resulted in a net profit after tax of $3,114,560, which was 27% up on the Information Memorandum forecast in July 2001.

The company acquired its new business on 16th July 2001.

The year under review continued the pattern of strong sales and earnings growth. I am able to advise that the directors have declared a dividend of 2.5 cents per share payable to shareholders in December. Some highlights which have occurred during the year include:

David J Lindh *LLB, FTIA, FAICD*
Chairman (Non-Executive)
Ellex Medical Lasers Limited





- The appointment of Mr Peter Rowland as Managing Director on 16th January 2002.
- The move into our new, purpose designed production premises in Gilbert Street, Adelaide.
- The rapid increase in production capacity. For the first time in the Company's history sales were not limited by production volumes.

THE COMPANY'S INTEGRE PHOTOCOAGULATOR USED TO TREAT DIABETIC RETINOPATHY.

Final laser alignment.

During the year our Balance Sheet was strengthened by the exercise of 2,793,923 Primary Options, which raised $2,793,923 for working capital. We still have on issue 2,793,853 Secondary Options exercisable at $1 each, expiring 31 May 2004, and 11,690,990 further options at 50 cents each, expiring 25 July 2004, which we expect to supplement our cash flow over the next few years. In addition, we have in place an Employee Share Option Scheme. Under this scheme we issued 126,000 options to employees during the year.

The past year saw the onset of difficult trading conditions in many of our markets, and in recent months we have noticed further declines in consumer confidence. We are thus predicting more conservative revenue growth for the coming year in line with an increasingly competitive market but we are confident that the sales initiatives in place will again deliver our targeted performance.

I would like to thank all existing and new shareholders for their support during the first year of the Ellex Medical Lasers Ltd. business as a public company. Thanks also to my fellow directors, our excellent management team and all of our hard working employees and consultants.

We have in place a long term growth strategy that should see our company become a world-wide leader in the ophthalmic industry, and lead to increased shareholder wealth.

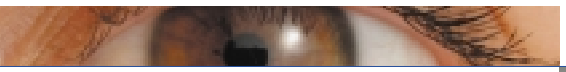
David J Lindh

NON-EXECUTIVE CHAIRMAN

MANAGING DIRECTOR'S Review

I am pleased to be able to report that Ellex Medical Lasers Ltd. had an exceptionally good first year's trading as a public company. Sales revenue at $27.35m was up 26% on last year when Ellex was trading as a private company. Our conservative expectations of sales growth of around 7% as set out in the Information Memorandum, were boosted by increased production capacity in our new facility, which allowed us to not only capitalise on improved market penetration but also to turn a significant order backlog into sales during the year. Our customer support business, separately managed and accounted this year for the first time, also delivered sales and gross margin well above expectations.

The Japanese ophthalmic market is second only to the USA, and after securing regulatory approval to sell our photodisruptor range of products there at the start of the year, our Japanese distribution partner had an extremely successful year aggressively competing in our main competitor's home market and achieving an estimated 40% local market share. Despite difficult economic conditions in the USA our subsidiary company managed to grow sales in their market by 29%.



Peter R Rowland *B.Sc., MBA*
Managing Director
Ellex Medical Lasers Limited

Centre: *Final Inspection.*

Far right: *Ellex Medical staff at the XXIXth International Congress of Opthalmology in Sydney, Australia.*

In the last two quarters increased sales focus in European and Asian markets was rewarded with 60% growth in sales over the first two quarters, albeit from a low base.

Our core photodisruptor product range continued to perform well through the year with sales growth in all markets. Together with our Original Equipment Manufacturers (OEM) channel partners we supply half of the world demand for this product. Customer acceptance of our new retinal photocoagulator product has been good with sales above expectation for its first year. This product is highly differentiated from its competition and we have high hopes for future sales growth. During this year we signed a contract with our OEM channel partner Lumenis to develop a new, dual wavelength laser for a new procedure called Selective Laser Trabeculoplasty (SLT) for treating glaucoma. This major engineering design project was initiated during the year and is on schedule for product release in October 2002.

Electronics Assembly.

The relocation of our operations to our new premises in Gilbert Street was completed successfully in January and this allowed us to achieve for the first time our goal of having spare stock of finished goods in order to offer prompt delivery times.

Gross profit margins improved this year despite some pressure on average selling prices by competitors discounting in the softer US market. Consequently cash generation was strong throughout the year. There was a planned build up in stock during the year, much of which was in finished goods or work-in-progress stock due to the higher production rates. We have also increased buffer stock levels of critical and sole source materials to ensure continuity of production in the event of supply chain disruption in these turbulent times.

Staffing increased from 83 to 111 over the year. A significant increase in operational expenses over the previous year represents the increased costs of trading as a public company, and a major component of this is once off and legacy expenses associated with the 'back door' listing.

Ellex Medical plans for a year of conservative growth given current market volatility. With production limitations behind us the challenge is now to position the Laserex® brand to win more market share in Europe and to establish a platform for growth in the major markets in Asia. The sales of our new Selective Laser Trabeculoplasty (SLT) glaucoma treatment laser and the expansion of our retinal product range is expected to maintain growth rates in the longer term.

In concluding, I would like to publicly acknowledge and thank my management team and all our staff, both in Adelaide and in Minneapolis, whose enthusiasm, skill, commitment and hard work has delivered this outstanding result.

THE NEW SELECTIVE LASER TRABECULOPLASTY LASER USED TO TREAT GLAUCOMA.

Peter Rowland

MANAGING DIRECTOR

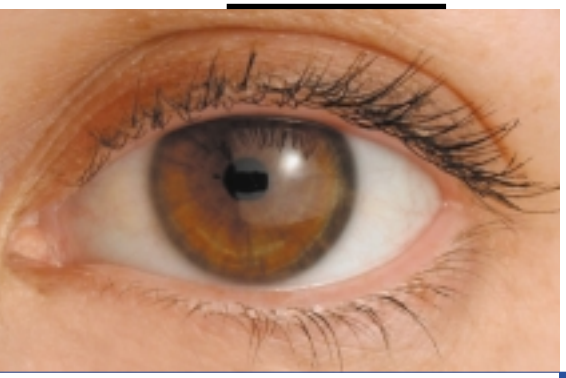
Overview

ELLEX MEDICAL LASERS LTD BUSINESS

Ellex Medical Lasers Ltd, based in Adelaide, Australia is a significant player in the international laser market. Apart from being Australia's largest laser manufacturer, Ellex is a significant global competitor in the ophthalmic laser market, holding a dominant market position in the supply of photodisruptor lasers used for secondary cataract surgery.

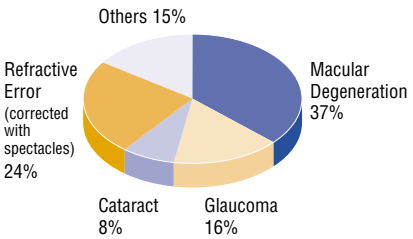
The Ellex headquarters and its principal facility is located at 82 Gilbert Street, Adelaide, South Australia. Its wholly owned North American distribution facility is located in Minneapolis, Minnesota, USA. To date, Ellex has manufactured and shipped more than 4000 laser systems worldwide.

Ellex is dedicated to providing high quality lasers for performing a range of delicate surgical procedures with the confidence that the lasers will continue to function to exacting standards throughout their service lives, with an absolute minimum of down time. Ellex has successfully carved a strong niche for itself in the global ophthalmic market through developing and marketing lasers for the surgical treatment of secondary cataracts. This technology platform, derived from the rich defence industries based in South Australia, has proven to be sufficiently advanced and has allowed Ellex to secure a dominant market position. When the technology was first launched, there were 24 competitors in the global market.



Blindness and cancer are the two most feared health conditions that people want to prevent.

Causes of Vision Loss World Wide: 18 Million People



Since that time, 20 competitors have disappeared and Ellex with its premier brand Laserex® in conjunction with two strong partners, Alcon of Fort Worth and Lumenis of Santa Clara, hold in excess of 50% market share of photodisruptors sold worldwide.

By providing the right balance of features distilled out of a close working relationship with clinicians from the Department of Ophthalmology at Flinders University and private practitioners based in Adelaide, the company developed a superior ergonomic configuration, an easy to maintain modular design with a competitive price.

Ellex is one of only a few companies in Australia to have established a quality system that complies with the necessary regulatory standards to be accepted by the Australian Therapeutic Goods Administration, the European Union and the demanding United States based Food

The strength of the business is great people.

and Drug Administration (FDA). The company can confidently boast excellent relations with international regulatory agencies, built on a thorough understanding of the demanding process, the highest standards of excellence and a mutual respect of our regulatory colleagues. Ellex continues to secure its regulatory approvals in record times.

The photodisruptor market, in which Ellex has excelled is considered to be the smallest market segment in the ophthalmic laser market. As demonstrated by statistics on global visual impairment, cataracts represent only 8% of the total global visually impaired population. Double this statistic, (16%) are visually impaired due to glaucoma, and more than double again, (37%) are visually impaired due to retinal disorders.

Having built a strong market position in the smallest niche, Ellex has an opportunity to grow into the larger market sectors available in the glaucoma and retinal markets.

LASER SURGERY

OPHTHALMIC

Facts about ophthalmic laser surgery

- ophthalmic lasers have existed since 1962
- an estimated 80% of blindness is preventable if treated early enough
- many forms of blindness or vision impairment are a natural result of ageing
- laser surgery has revolutionised the treatment of many eye diseases

What is a laser?

LASER is an acronym for Light Amplification by Stimulated Emission of Radiation. Basically, a laser converts electrical energy to a high-intensity narrow beam of light of purely one wavelength (colour). This means laser light can be produced to exactly match the absorption properties of the tissue to be treated.

What is ophthalmic laser surgery?

Ophthalmic simply means relating to the eye. Ophthalmic laser surgery uses a laser to operate on the eye. It is usually painless and quick, and can often be done in the ophthalmologist's surgery or office. Lasers used for this type of surgery may cut a hole in tissue, or may coagulate blood vessels to stop bleeding or stimulate photochemical changes in biological tissue. Because the eye is designed to let in light, a laser can be used for surgery in a minimally invasive manner, reducing risks associated with conventional surgery.

Are there risks with laser surgery?

There are some risks with all forms of surgery, but because the eye is not surgically cut open for most laser procedures the risks are much lower.

What types of ophthalmic lasers are there?

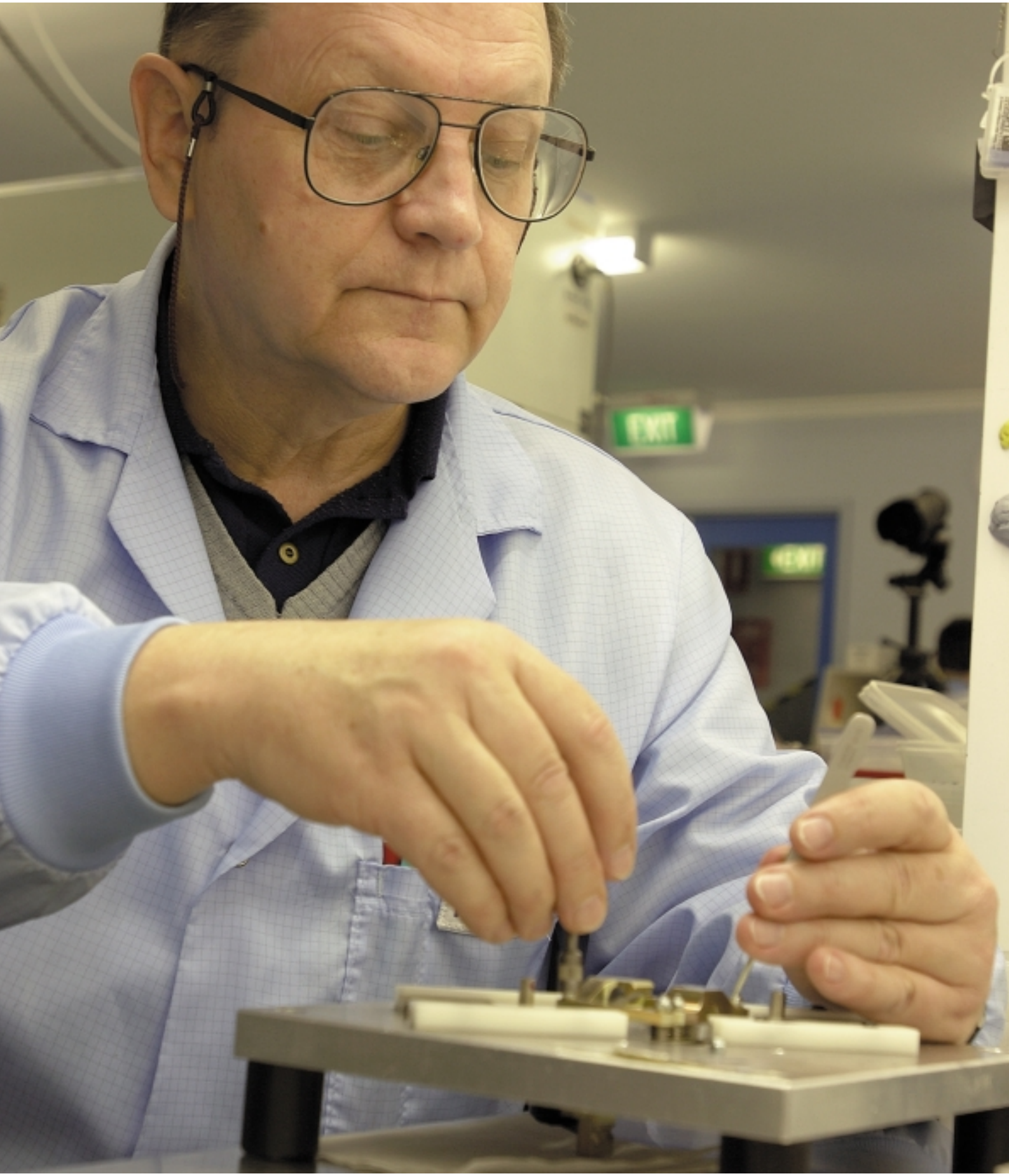
Laser surgery differs for the various diseases and conditions of the eye. Ophthalmic lasers currently made by Ellex Medical include:

- Photodisruptor — Cuts holes in tissue. Used for treating secondary cataracts
- Photocoagulator — Coagulates blood vessels. Used for treating diseases of the retina
- SLT – Clears blockages in the trabecular meshwork. Used for treating glaucoma

Half of visual impairment is correctable and one quarter is preventable.

PRESENT SITUATION:

- *it is estimated by the World Health Organisation (WHO) that, globally 180 million people are blind, have severe vision impairment or are likely to become blind if untreated*
- *the loss of eyesight costs society billions of dollars each year in healthcare and loss of earnings*
- *the WHO estimates around 7 million people become blind each year, and over 70% of them receive treatment and their vision is restored*


EXIT
EXIT

CATARACT

THE DISEASE

What is a cataract?

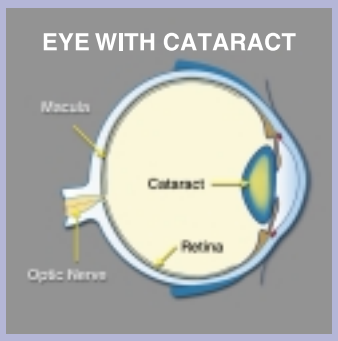
A cataract is a clouding of the part of the eye known as the lens, which focuses light onto the retina at the back of the eye. The lens is just behind the iris (the coloured part of the eye) and is normally clear. When the lens becomes cloudy, light is no longer transmitted evenly through it and vision becomes blurred and hazy. Without treatment blindness results.

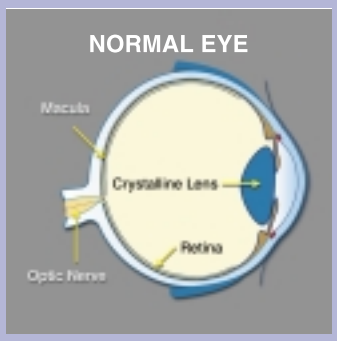
Cataract sufferers report their vision appears as if they are looking through a cloudy piece of yellowish glass. Developing a cataract is a normal part of ageing and about 50% of people between 60 and 75 have some cataract formation, rising to 75% of people over this age.

Research suggests there are many causes for cataracts, including diabetes, ultraviolet exposure and cigarette smoking. At the moment nothing is available to prevent cataracts.

Facts about cataracts

- a cataract is a clouding of the lens within the eye
- for most people cataracts are a natural result of ageing
- some degree of cataract formation is present in almost everyone over the age of 65
- secondary cataract is a condition caused by cell growth within the eye that can appear after cataract surgery, and is best treated by laser surgery
- the need for surgery is expected to double in 20 years due to our ageing population



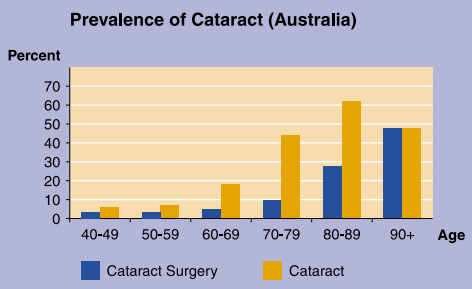


Everyone will develop cataract if they live long enough, and half will have cataract surgery.

PRESENT SITUATION:

- *120 000 cataract operations are performed each year in Australia alone*
- *globally, cataract accounts for approximately 17 million blind — it is a significant cause of blindness*
- *up to 20% of patients require laser surgery for secondary cataract*

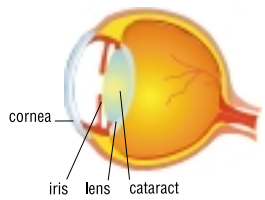
A scene as it might be viewed by a person with cataract



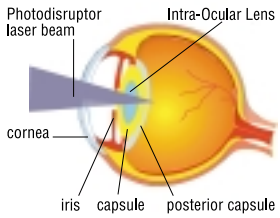
CATARACT

THE TREATMENT

Surgery is the only treatment currently available to remove cataracts. During the surgery the cloudy lens is removed from its thin protective covering layer (called the capsular bag), and a biocompatible plastic lens called an Intra-Ocular Lens (IOL) is placed inside the empty capsular bag.



The back of the capsular bag, called the posterior capsule, is clear at this time but after surgery can (in up to 20% of patients) become opaque and cause loss of vision. This is a secondary cataract and can be treated by a laser surgery procedure called a capsulotomy, which is a quick and painless outpatient procedure performed without the need for either anaesthesia or a surgical incision.



Cataract operations

The primary cataract operation requires conventional surgery and does not use a laser.

The secondary cataract operation is conducted with a laser photodisruptor. The operation, called a laser capsulotomy, is carried out in the ophthalmic surgeon's surgery or office. It is quick, painless, and does not require normal surgical procedures.

In laser capsulotomy the ophthalmic surgeon aims the laser through the pupil and carefully fires around 20 laser shots at the posterior capsule. Each laser shot produces a micro-explosion in the target tissue, and this induces a high intensity acoustic shock wave. The shock wave ruptures a small hole in the posterior capsule and thus removes the obstruction to the patient's vision. The collective shots clear a pathway in line with the pupil and about 4 mm in diameter.

THE STATE-OF-THE-ART LASEREX LQP3106 PHOTODISRUPTOR FACILITATES THE TREATMENT OF SECONDARY CATARACTS.

Photodisruptors

Ellex photodisruptors have been well accepted by the market because of a number of unique features the company has pioneered. Ellex was the first company to introduce a photodisruptor with the laser so well integrated into a slit lamp microscope that the resultant configuration did not impair the ophthalmologist's operation of the instrument. Along with several ergonomic advantages, the product soon won end-user appeal, creating market demand.

The second major innovation Ellex introduced was a unique modular design, which is simple to install and maintain in the field. This translates into a high level of confidence with international distributors who are able to supply the ophthalmologist with a first class instrument that is easily maintainable, even when used in the harshest environments.

With these advantages, Ellex captured half the total world market for laser photodisruptors.

Ellex has the broadest range of photodisruptors on the market. The three most popular are: a top of the range system suitable for the most demanding hospital, clinic or teaching hospital, a transportable version for private practitioners, and a rugged system portable enough for use in 'eye camp' clinics run by aid agencies such as the Fred Hollows Foundation.

GLAUCOMA

THE DISEASE

What is glaucoma?

Glaucoma is a common disease but its exact cause is not known. Vision loss is preventable if diagnosis and treatment is begun at the early stages of the disease.

Glaucoma affects the region of the eye in front of the lens. This chamber contains a watery fluid that is secreted by the ciliary body located at the periphery of the iris, and circulates through the trabecular meshwork, where it leaves the eye (at the angle) to be reabsorbed into the bloodstream. If the fluid is secreted faster than it can be reabsorbed the pressure in the eye increases, which can damage the optic nerve and severely affect vision. Glaucoma can also be caused by a blocking of the trabecular meshwork, a section of tissue that acts like a filter for the fluid. If left untreated this results in Open Angle Glaucoma.

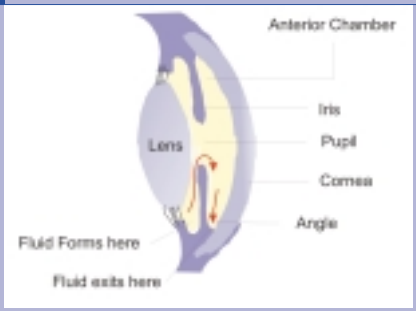
The most common type of glaucoma, (>90% of cases) is open angle and caused by a slow increase in pressure inside the eye that may not even be noticed until the optic nerve is damaged. Closed angle glaucoma is rare and characterised by sudden onset, is rare but extremely painful. All types of glaucoma, if left untreated, result in blindness.

At the moment nothing is available to prevent glaucoma, but the damage done can be limited by prompt treatment.

Facts about glaucoma

- **glaucoma is a disorder and is characterised by damage to the optic nerve, which transmits signals from the eye to the brain**
- **damage to the optic nerve is induced by elevated pressure within the eye**
- **the rise in pressure is caused by the production of excessive amounts of fluid or by the blockage of fluid channels that drain the eye**

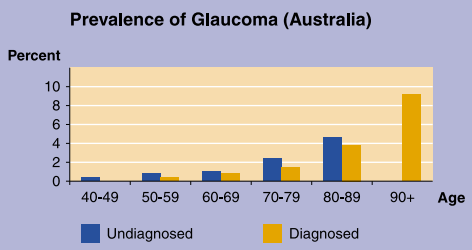
One person in ten will develop glaucoma but half of those with glaucoma do not know they have it.



A scene as it might be viewed by a person with glaucoma

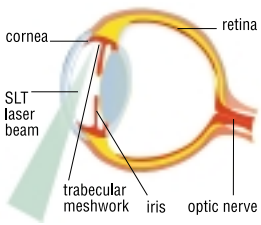
PRESENT SITUATION:

- *210 000 Australians have glaucoma*
- *a family history of glaucoma increases risk of glaucoma by at least four times*
- *if glaucoma is detected early and treated effectively, vision loss can be prevented*
- *by the time visual defects are detected, permanent damage has resulted and cannot be reversed*
- *half of those with glaucoma have not been diagnosed due to inadequate population screening*



GLAUCOMA

THE TREATMENT



Treatment for glaucoma aims to help the fluid drain out of the angle of the eye and reduce the pressure. The current accepted treatment uses drugs, and an estimated $4.25 billion is spent annually by glaucoma patients world wide. The main problems with drugs are that they must be used daily (usually as eye drops), and the patient may forget or neglect to use them. Another problem is that there are side effects to the patient's long term health.

Glaucoma operations

Glaucoma can now be treated by several types of laser surgery. Iridotomy reduces the pressure by creating a hole in the iris that allows fluid to flow through. Selective Laser Trabeculoplasty (SLT) is used to treat open angle glaucoma by a biological effect in which macrophages (scavenger cells) are activated to help clean out blocked trabecular meshwork, thus restoring normal pressure.

During all types of laser surgery for glaucoma, the eye is anesthetised so there is little or no pain. The patient only sees a bright light — like a camera flash.

An iridotomy is usually carried out using a photodisruptor laser, but it may not provide a permanent solution since the hole created in the iris can close over in time.

In SLT, the ophthalmologist holds a special contact lens to the eye and the laser beam is aimed into the eye through this contact lens, which directs the short bursts of low energy laser light to the trabecular meshwork. This stimulates structural changes to the trabecular meshwork and results in an increase in fluid outflow but with no lasting damage done to the meshwork. The SLT technique is much less traumatic to the eye than earlier laser treatments because they were thermal in nature and often permanently scarred the meshwork.

THE NEW SELECTIVE LASER TRABECULOPLASTY (SLT) LASER USED TO TREAT GLAUCOMA.

Combined SLT and photodisruptor lasers

In April this year Ellex announced its agreement with Lumenis Inc. of Santa Clara USA to develop and manufacture a new range of ophthalmic laser products. The first product to emerge from this programme, the Selecta Duet, produces two frequencies — green pulses for SLT glaucoma treatment and pulsed infrared for treating secondary cataracts or performing iridotomies.

Lumenis holds the US patent rights for the treatment of glaucoma with the SLT technique. Under the terms of this agreement Ellex will develop and exclusively manufacture these lasers for Lumenis Inc for the American and Japanese markets. Ellex and Lumenis will share the rest of the world on a cooperative basis. Under the terms of the agreement Ellex will own the intellectual property rights to the product configuration, and a patent application for this is currently in progress.

RETINAL DISEASES

THE DISEASE

What are retinal diseases?

The retina is the back wall of the eye and contains one of its most important regions: a small (5% of the retina) central layer of light-sensitive cells called the macula. Information from these cells passes through the optic nerve to the brain. The retina is richly supplied with blood and is susceptible to a range of diseases, all of which threaten vision. The most common diseases of the retina are diabetic retinopathy, macular degeneration and macular œdema.

Retinal diseases affect the vision in many different ways, and degrees of seriousness range from minor blurring to total blindness.

In diabetic retinopathy the blood vessels supplying the retina become weak and can break down, leak or become blocked. It occurs in about 40% of people who have had diabetes for 15 years or more, but it can occur early and even be the first symptom people have of diabetes.

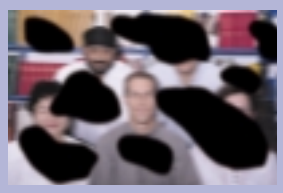
In macular degeneration the light-sensitive cells of the macula malfunction, and eventually stop working. It occurs most often in people over 60, in which case it is called Age-related Macular Degeneration (AMD). There are also several rare hereditary forms of macular degeneration that affect children and teenagers. In macular œdema the macula may be swollen, leaking or contain hard deposits.

Research suggests the major causes for retinal diseases are diabetes and ageing. Currently there is no known treatment to prevent these diseases.

Facts about retinal diseases

- **retinal diseases are common in people with diabetes**
- **4,500,000 Australians have diagnosed diabetes, and probably an equal number have undiagnosed diabetes — all are at risk of developing retinal diseases or cataracts**
- **early diagnosis and treatment of diabetes can prevent up to 98% of severe vision loss**
- **two out of three people will develop the retinal disease age-related macular degeneration (AMD)**
- **one person in four people with AMD will lose their sight if left untreated**

Two out of three people with diabetes will develop macular degeneration and one in four will suffer a significant loss of vision from it.

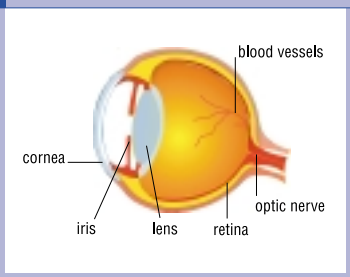


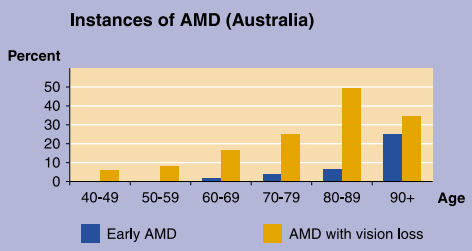
A scene as it might be viewed by a person with diabetic retinopathy

A scene as it might be viewed by a person with age-related macular degeneration

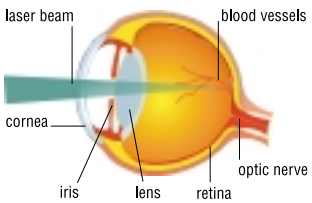
PRESENT SITUATION:

- *diabetic retinopathy is the leading cause of blindness in diabetics*
- *early treatment can prevent blindness from retinal diseases in 70-80% of cases*
- *37% of vision loss in the developed world is caused by macular degeneration*





THE TREATMENT



Laser technology has radically improved the treatment of retinal diseases, especially the management of diabetic retinopathy. The current model used for the treatment of retinal diseases is a photocoagulator laser.

Laser treatment of AMD is only effective in a small minority of cases, and new treatments based on laser technology are eagerly anticipated by the ophthalmic community.

Diabetic retinopathy operations

Photocoagulator laser surgery is effective for diabetic retinopathy and is the most common form of treatment. In this kind of surgery, the laser beam is focused to a small spot and directed at the retina to seal leaking blood vessels by thermal coagulation or cauterisation. The laser beam spots can also be scattered through the sides of the retina to reduce abnormal blood vessel growth and help seal the retina to the back of the eye. This can help prevent retinal detachment.

The laser surgery can usually be done in the ophthalmologist's office. Eye drops are used to anæsthetise the eye to reduce any discomfort during the procedure. Little recuperation time is needed after the surgery.

AMD operations

A small number (10 – 15%) of people suffering from the ‘wet’ form of AMD may be helped by photocoagulator laser treatment, but even for this relatively small group, it does not restore vision that is already lost. For those who are suitable candidates for this procedure, laser treatment seals the abnormal leaking blood vessels in the retina and discourages their growth.

In about half of these cases, however, the ageing process may cause new blood vessels to grow in nearby areas. This suggests that perhaps half of these patients may need additional laser treatment at some time in the future. Nevertheless, if abnormal vessels are not treated at all they will continue to grow larger and to leak even more, causing continued loss of vision.

The ophthalmologist uses angiogram photos (like a map) of the patient’s eye to help aim the high-energy laser beam at the tiny, leaking blood vessels to seal them.

The laser procedure is non-invasive and without pain. It is performed on an outpatient basis and takes only about 15 to 20 minutes. Immediately after the treatment, the patient may experience some increased blurring, but the vision should gradually improve over the following weeks. The ophthalmologist may recommend frequent follow-up visits and repeat treatments as necessary.

THE LASEREX INTEGRE PHOTOCOAGULATOR USED TO TREAT DIABETIC RETINOPATHY.

Photocoagulators

The Integre photocoagulator laser produces a green laser light suitable for the treatment of the various retinal diseases. The Integre is easily portable, and its design won a ‘New Product Innovation Award’ in 2001.

Profiles

DIRECTORS

David Lindh *Non-Executive 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 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, and privatisation matters.

Peter Rowland *Managing Director –* Peter has extensive management experience in the international electro-optics industry, starting in Scotland as a design engineer and then as a manager of laser development and manufacturing. Peter immigrated to Adelaide in 1983 to run the Engineering Division of a small company specializing in the design and manufacture of precision optics and electro-optical systems including lasers. He then spent a number of years at British Aerospace Australia firstly as Sales & Marketing Manager and then latterly as Director of Business Development. Peter joined Ellex Medical in January 2002.

Victor Previn *Executive Director, Corporate Development –* Victor is one of the original founders of Ellex with a career spanning 24 years in the laser industry. A professional engineer, Mr Previn initially worked for an Adelaide based supplier of laser and scientific equipment. Mr Previn was responsible for developing and commercialising the technology platform that is the core of Ellex's current production. After establishing Ellex, he left the business to pursue other interests in the laser industry and spent considerable time in the US in a business development capacity. He returned to Ellex in 1996 to take charge of product development.

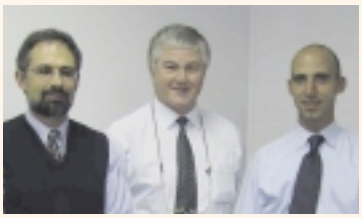
Geoffrey Hill *Non-Executive –* Geoffrey Hill has extensive experience as a merchant banker over the past 30 years in both the Australian and international equity markets, having begun his career in investment banking as a portfolio manager with Development Finance Corporation Limited in 1968. Mr Hill's 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 a former managing director of Morgan Grenfell Australia Limited.

COMPANY SECRETARY

Greg Frisby *Company Secretary –* Greg has over 25 years experience in the Banking, Merchant Banking and Finance industries in Australia. He is currently a Director of Edison Corporation Pty Ltd and Langhorne Creek Premium Vineyards Pty Ltd.

MANAGEMENT

Left to right: *Tonnet Penascoza – Product Manager, Global Support; Kevin Playdon – Financial Controller; Lee Walker Roberts – VP Europe & Japan; Peter Rowland – Managing Director; Mike Fullgrabe – VP Asia Pacific, South America & Africa; Athy Kalatzis – General Manager, Operations; Malcolm Plunkett – Engineering Manager, Product Development; Victor Previn – Director, Corporate Development.*



Left to right: *Victor Previn, Professor John Marshall, Peter Falzon.*

Left to right: *Hope Wilson, Accountant, Bill Swaim, President, Ben Johnson Service Technician & Lisa Tuchtenhagen, Sales Administrator.*

Scientific Advisory Board

The Chairman of the board is Professor John Marshall, Frost Professor of Ophthalmology at St Thomas's Hospital London who is a globally renowned researcher in ophthalmology and ophthalmic lasers.

Professor Marshall is the co-inventor of the world's first diode laser developed for ophthalmology, and of eximer laser refractive surgery. He is currently engaged in research on the treatment of a range of retinal diseases and retinal imaging.

To have an academic of Professor Marshall's standing on the Advisory Board represents a major coup for Ellex as he had led many successful research projects as well as advised successful commercial ventures.

The second foundation member is Peter Falzon. Peter, based in San Francisco was previously with Coherent Medical where, as Director of Business Development, he established that Company's medical advisory board.

Peter has been involved in initiating and managing a broad range of emerging technologies in Ophthalmology, he is experienced in the photodisruptor, the retinal and the refractive laser markets. He successfully led the launch of a new treatment systems for treating age related macular degeneration (AMD) in collaboration with Ciba Vision and in the development of selective laser trabeculoplasty (SLT) for treating glaucoma.

Peter was CEO of Coherent Japan Inc. and also Director of Coherent Medicals' Ophthalmic division and his technical expertise in ophthalmic lasers will enable him to make a very valuable contribution to Ellex's development.

Laserex Systems Inc. (LSI)

LSI is Ellex's Minneapolis based subsidiary which manages sales and customer support throughout North America. LSI was established in 1995 and has successfully grown sales under the Laserex brand each year so that LSI has an installed base of over 700 laser units in USA.

Operating Results of Ellex Medical Lasers Limited

Comparison of Operating Results ($'000)	Ellex Medical Lasers Limited	Ellex Medical Pty Ltd*			
Statement of Financial Performance	**2002**	**2001**	**2000**	**1999**	**1998**
Operating revenue	27,354	21,661	17,939	10,355	13,471
Total cost of goods sold	(14,533)	(11,671)	(10,769)	(5,566)	(8,451)
Total other expenses	(7,334)	(5,713)	(4,163)	(4,106)	(3,738)
Total other revenue	622	1,289	333	(27)	304
EBITDA	6,109	5,566	3,340	656	1,586
Depreciation and amortisation	(1,331)	(180)	(151)	(141)	(128)
EBIT	4,778	5,386	3,189	515	1,458
Interest income and (expense)	(60)	169	(74)	(49)	(13)
Net profit before tax	4,718	5,555	3,115	466	1,445
Tax expense	(1,437)	(2,100)	(1,111)	(69)	(507)
Net profit after tax	3,281	3,455	2,004	397	938
Outside equity interest	(166)	(204)	(179)	(46)	(253)
Net profit after tax minorities	3,115	3,251	1,825	351	685

- Previously Taracan Pty Ltd

Financial Report *for the year ended 30th June 2002*

ELLEX

MEDICAL

LASERS

LIMITED

Financial Report *for the year ended 30th June 2002*

The financial report has been derived from the full financial report for the Year ended 30 June 2002.

The Directors present their report together with the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2002 and the auditor's report thereon.

Contents:

Directors Report 2002

(a) Directors

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

D J Lindh (Non-Executive Chairman of Directors)
David Lindh was reappointed as a director at the Annual General Meeting held 28 November 2001, having previously been a Director since 4 April 2000. He has over 30 Years experience as a commercial lawyer and company director, and is a director of a number of public and private companies.

G G Hill (Non Executive – 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 public and private companies.

V Previn (Executive Director)
Victor Previn was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. He is currently Executive Director – Corporate Development.

P Rowland (Managing Director)
Peter Rowland was appointed a director on 16 January 2002. He was previously Chief Executive Officer of Invest South Australia and prior to that appointment Director of Business Development for British Aerospace Australia.

P M Finlayson
Peter Finlayson resigned as a director on 18 July 2001.

(b) Principal Activities

Since July 2001 the Company's principal activity has been the development, manufacture and distribution of medical laser equipment for application in ophthalmic procedures.

(c) Review and Results of Operations

The consolidated profit for the year after income tax and outside equity interests was $3,114,560 compared to loss of ($462,497) for 2000/2001.

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

(d) State of Affairs

In the opinion of the Directors, there were significant changes to the state of affairs of the consolidated entity that occurred during the financial year being:

On 16 July 2001 the Company acquired the whole of the issued capital of Ellex Medical Pty Ltd (Previously Taracan Pty Ltd) 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.

(e) Dividends

In respect of the financial year ended 30 June 2001, as detailed in the Directors' report for that financial year, no dividend was payable to shareholders.

(f) Shares and Options

(1) Shares and options issued during the year are outlined in Note 29 to the financial statements.

(2) Employee Share Option Plan

On 9 July 2001, an Employee Share Option Plan was approved at an extraordinary meeting of shareholders.

On 20 March 2002, under the rules of the Employee Share Option Plan, the Directors' approved:

- The issue of 126,000 options to full time employees exercisable at $0.50 by 25 July 2004. Each fulltime employee to receive 2,000 options. These options expire upon termination of employment.
- An allocation of a total of 643,335 performance based options for management and employees conditional upon the Company recording earnings before interest, tax, depreciation and amortisation ("EBITDA") for financial year ended 30 June 2002 of $5,622,000. Based on the results achieved for the year ended 30 June 2002, the board have confirmed these options will be issued to management and employees in September 2002.

(3) Managing Director's Options

As part of the remuneration package, the Company agreed with the Managing Director, Mr Peter Rowland on his appointment, subject to shareholder approval, to issue 1 million options over a three year term to be exercised subject to the Company achieving agreed performance goals for the financial year pre-ceding the exercise date, as follows:

- 333,333 options exercisable within three years from 16 January 2003, at an exercise price of $1.25 per share,
- 333,333 options exercisable within three years from 16 January 2004, at an exercise price of $2.00 per share,
- 333,334 options exercisable within three years from 16 January 2005, at an exercise price of $2.50 per share.

(g) Subsequent Events

Apart from matters discussed elsewhere in the Annual Report, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2002 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years, the results of these operations, or state of affairs of the consolidated entity in future years.

(h) Future Developments

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

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

(i) Corporate Governance Practices

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

During the year the Company adopted a Corporate Governance Policy to guide Directors, Officers and Employees of the Company in regard to the conduct of their affairs in respect to the Company.

Directors: The board presently consists of two non-Executive Directors and two Executive Directors. The Chairman is a Non-Executive Director.

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.

Audit Committee: The board has established an Audit Committee consisting of three Directors two of whom are Non-Executive Directors, and one external appointee Mr. Dean Kerr. The current members of the Audit committee are:

Mr. G. G. Hill (Non Executive Director) – Chairman
Mr. D.J. Lindh (Non Executive Director)
Mr. V Previn (Executive Director)
Mr. D Kerr

The external appointee Mr. Dean Kerr is currently a Non-Executive Director of an ASX Listed Company, and was previously the CFO of an ASX Listed Company, with considerable experience in finance and accounting.

The Audit Committee provides a forum for effective communication between the board and external auditors. The Audit Committee reviews:

- The annual and half-year financial report prior to approval by the board,
- The effectiveness of internal financial management controls,
- The efficiency and effectiveness of the external audit function, including reviewing the respective audit plans and any changes to the accounting standards and external reporting requirements and considering recommendations from the external auditors.

The Audit Committee invites the Managing Director, Group Financial Controller and the external auditors to attend all meetings.

Treasury Committee: The board adopted a financial risk management policy developed in conjunction with Oakvale Capital Limited a company which specialises in providing advice on interest rate risk and currency risk.

The board has established a Treasury Committee to meet on a regular basis to consider interest rate and currency risk in the context of the Company approved policy and provide recommendations to the board to appropriately manage risk in these two key areas.

Taxation Committee: A sub-committee of the Audit Committee was established during the year to address all taxation matters including policy and changes to the tax system.

Remuneration Committee:	The Remuneration Committee reviews the remuneration policies applicable to all directors and executive officers on an annual basis and approves remuneration packages and terms of employment. The board as a whole forms the Remuneration committee.
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.

(j) Legal Matters

During the year the company continued to defend a claim against it in the USA 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.

That decision is still the subject of an appeal by the plaintiff, acting for herself, which the Company's US Lawyers consider will not succeed.

(k) Meetings of Directors

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

	Regular Meetings		Audit & Risk Committee	
	A	B	A	B
D.J. Lindh	15	15	3	3
G.G. Hill	15	15	3	3
V. Previn	14	15	3	3
P. Rowland	6	6	3*	3

A – Number of meetings attended
B – Number of meetings held during the time the Director held office
* By Invitation

(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
D. J. Lindh	6,000	4,000	648,072	1,413,392
G.G. Hill	-	-	568,602	1,394,207
P. Rowland*	-	2,000	-	-
V. Previn	-	-	3,000,000	3,500,000

* Refer note (f) (3).

(m) Directors' & Executive's Remuneration

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

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

Remuneration packages contain the following key elements:

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

		Salary/ Fees	Consultancy Fees	Incentive Schemes	Benefits	Total
D J Lindh	Non Executive Director	55,000	40,000	-	7,600	102,600
G G Hill	Non Executive Director	50,000	-	-	4,000	54,000
P Rowland	Managing Director	104,636	-	1,000	15,171	120,807
V Previn	Executive Director	212,823	-	-	30,926	243,749
	Total	**422,459**	**40,000**	**1,000**	**57,697**	**521,156**

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

Name		Salary/ Fees	Benefits	Incentive Schemes	Total
P Rowland	Managing Director	104,636	15,171	1,000	120,807
V Previn	Executive Director	212,823	30,926	-	243,749
B Swaim	President – Laserex Inc- US	222,629	33,394	-	256,023
L Walker-Roberts	Vice President – Europe & Japan	123,826	9,906	1,000	134,732
K Playdon	Financial Controller	76,524	32,098	1,000	109,622
	Total	**740,438**	**121,495**	**3,000**	**864,933**

(n) Directors' and Auditors' Indemnification

- On 9 July 2001, at an Extraordinary General Meeting, the company passed a resolution to adopt a Deed of Access and Indemnity for the current directors.
- On 31 October 2001 the Company signed a deed of access and indemnity for Directors' D J Lindh, G G Hill, V Previn and Company Secretary G Frisby.
- The Company has not otherwise, during the financial year indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such an officer or auditor.

(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.

(p) Rounding

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

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

On behalf of the directors

David J Lindh
Chairman

10 September 2002

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 2002 as set out on pages 28 to 54. The financial report includes the consolidated financial statements 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. 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 and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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 and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and
  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

DELOITTE TOUCHE TOHMATSU

Stephen Harvey
Partner
Chartered Accountants
Adelaide, 10 September 2002

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

Directors Declaration *for the year ended 30th June 2002*

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) The Directors opinion, the attached financial statements and notes are in accordance with the Corporations Act 2001; and
(d) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of Directors

David J Lindh
Chairman
10 September 2002

Statement of Financial Performance for the year ended 30th June 2002

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
Revenue from ordinary activities		28,046	34	1,383	34
Reduction in value of inventories		-	(17)	-	(17)
Devaluation of mining leases		-	(40)	-	(40)
Raw materials and consumables used		(12,765)	-	-	-
Changes in labour and overhead		303	-	-	-
Employee benefits expense		(5,789)	(25)	(57)	(25)
Legal fees		(208)	(161)	(135)	(161)
Depreciation and amortisation expense		(1,331)	(12)	-	(12)
Advertising and marketing		(537)	-	-	-
Borrowing costs		(130)	-	(1)	-
Product development expenses		(1,251)	-	-	-
Other expenses from ordinary activities		(1,620)	(241)	(786)	(241)
Profit from ordinary activities before income tax expense	2	4,718	(462)	404	(462)
Income tax expense relating to ordinary activities	3	(1,437)	-	(128)	-
Profit from ordinary activities after related income tax expense		3,281	(462)	276	(462)
Loss from extraordinary items after related income tax benefit		-	-	-	-
Net profit		3,281	(462)	276	(462)
Net profit attributable to outside equity interests		(166)	-	-	-
Net profit attributable to members of the parent entity		3,115	(462)	276	(462)
Increase/(decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations	30	(223)	-	-	-
Total revenue, expense and valuation adjustments attributable to members of the parent entity recognised directly in equity		-	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners		**2,892**	**(462)**	**276**	**(462)**
Earnings Per Share					
- Basic (cents per share)	33	5.8 cents	-8.6 cents		
- Diluted (cents per share)	33	5.4 cents	-8.6 cents		

Notes to the financial statements are included on pages 32 to 54

Statement of Financial Position as at 30th June 2002

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
Current assets					
Cash assets		939	376	699	376
Receivables	9	5,446	24	3,610	24
Inventories	10	6,959	120	-	120
Current tax assets	11	-	1	-	1
Other current assets	12	119	487	9	487
Total current assets		**13,463**	**1,008**	**4,318**	**1,008**
Non-current assets					
Receivables	13	-	8	-	8
Other financial assets	14	-	-	24,099	-
Property, plant and equipment	15	3,564	70	-	70
Intangibles	16	21,069	-	-	-
Deferred tax assets	17	673	-	7	-
Other	18	-	60	-	60
Total non-current assets		**25,306**	**138**	**24,106**	**138**
Total assets		**38,769**	**1,146**	**28,424**	**1,146**
Current liabilities					
Payables	20	3,408	331	99	331
Interest-bearing liabilities	21	632	-	-	-
Current tax liabilities	22	980	-	135	-
Provisions	23	693	-	-	-
Other	24	-	25	-	25
Total current liabilities		**5,713**	**356**	**234**	**356**
Non-current liabilities					
Interest-bearing liabilities	25	2,185	-	-	-
Provisions	26	65	-	-	-
Total non-current liabilities		**2,250**	**-**	**-**	**-**
Total liabilities		**7,963**	**356**	**234**	**356**
Net assets		**30,806**	**790**	**28,190**	**790**
Equity					
Contributed equity	29	32,280	5,156	32,280	5,156
Reserves	30	2,892	-	-	-
Retained losses	31	(4,366)	(4,366)	(4,090)	(4,366)
Total equity		**30,806**	**790**	**28,190**	**790**

Notes to the financial statements are included on pages 32 to 54.

Statement of Cash Flows for the financial year ended 30th June 2002

	Note	Consolidated Inflows (Outflows) 2002 $'000	2001 $'000	Company Inflows (Outflows) 2002 $'000	2001 $'000
Cash flows from operating activities					
Receipts from customers		24,079	-	11	-
Payments to suppliers and employees		(22,602)	(490)	(2,891)	(490)
Interest and bill discounts received		70	30	49	30
Interest and other costs of finance paid		(130)	-	(1)	-
Income tax paid		(2,433)	-	-	-
Net cash used in operating activities	41(d)	(1,016)	(460)	(2,832)	(460)
Cash flows from investing activities					
Payment for purchase of a business	41(b)	(24,977)	(130)	(23,969)	(130)
Payment for property, plant and equipment		(3,048)	-	-	-
Proceeds from sale of property, plant and equipment		-	1	-	1
Deposit from potential purchase of jade business		-	25	-	25
Net cash used in investing activities		(28,025)	(104)	(23,969)	(104)
Cash flows from financing activities					
Proceeds from issues of equity securities		27,124	864	27,124	864
Payment for share issue costs		-	(65)	-	(65)
Payment for rights issue		-	(59)	-	(59)
Repayment of borrowings		(1,029)	-	-	-
Proceeds from borrowings		3,027	-	-	-
Repayment of leases		(62)	-	-	-
Net cash provided by financing activities		29,060	740	27,124	740
Net increase in cash held		19	176	323	176
Cash at the beginning of the financial year		376	200	376	200
Effects of exchange rate changes on the balance of cash held in foreign currencies		(27)	-	-	-
Cash at the end of the financial year	**41(a)**	**368**	**376**	**699**	**376**

Notes to the financial statements are included on pages 32 to 54.

1. Summary of Accounting Policies

Financial Reporting Framework

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

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

Significant Accounting Policies

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

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

(a) Payables

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

(b) Acquisition of Assets

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

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

(d) Capital Gains Tax

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

(e) Depreciation

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

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

(f) 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.

Foreign Exchange Contracts

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

(g) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, 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 wages and salaries, annual leave, sick leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

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

(h) Foreign currency

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

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

i) exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
ii) Exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

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

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

(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 acquisition of an asset or as part of an item of expense; or
ii) for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(j) Goodwill

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

(k) Income Tax

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

(l) Interest-Bearing Liabilities

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

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

(m) Inventories

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

(n) Investments

Investments in controlled entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments are recorded at cost.

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

(o) Leased Assets

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

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

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

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

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

(p) Patents, Trademarks and Licences

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

(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 controlled entities as defined in Accounting Standard AASB 1024 ‘Consolidated Accounts’. A list of controlled entities appears in note 37 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

(r) Receivables

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

(s) Recoverable Amount of Non-Current Assets

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

(t) Research and Development Costs

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

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

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

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

(u) Revenue Recognition

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

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
2. Profit from ordinary activities				
Profit from ordinary activities before income tax includes the following items of revenue and expense:				
(a) Operating revenue				
Sales revenue:				
Sale of goods	27,354	-	-	-
Interest revenue:				
Other entities	70	34	48	34
Foreign exchange gain	343	-	-	-
Proceeds from sale of assets	224	-	224	-
Other	55	-	1,111	-
	28,046	**34**	**1,383**	**34**
(b) Expenses				
Cost of sales	14,533	-	180	-
Borrowing costs				
Interest:				
Other entities	130	-	1	-
Net bad and doubtful debts	100	-	-	-
Net decrements arising from the revaluation of non-current assets:				
Devaluation of mining leases	-	40	-	40
Depreciation of non-current assets:				
Property, plant and equipment	237	12	-	12
Amortisation of non-current assets:				
Goodwill	1,053	-	-	-
Other intangibles	41	-	-	-
	1,094	-	-	-
Total depreciation and amortisation of non-current assets	1,331	12	-	12
Inventory:				
Reduction in value of inventories	-	17	-	17
Plant & equipment:				
WDV of plant and equipment disposed of	87	2	70	2
Research and development costs written off	1,251	-	-	-
Net transfers to provisions:				
Warranty	15	-	-	-
Operating lease rental expenses				
Minimum lease payments	24	-	-	-
Net foreign exchange loss	12	-	-	-
Legal fees	208	161	135	161
Provision for annual leave	44	(5)	-	(5)
Superannuation contributions	370	3	6	3

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
3. Income Tax				
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
Profit from ordinary activities	4,718	(462)	404	(462)
Income tax expense calculated at 30% (2001: 34%) of operating profit	1,415	(157)	121	(157)
Permanent differences:				
Amortisation of intangible assets	318	-	-	-
Other permanent differences	29	-	7	-
Tax benefit of losses not brought to account	-	157	-	157
	347	157	7	157
(Over)/under provision of income tax in previous year	(325)	-	-	-
	22	157	7	157
Income tax expense attributable to operating profit	**1,437**	**-**	**128**	**-**

	Consolidated 2002 $	Consolidated 2001 $	Company 2002 $	Company 2001 $
4. Directors' Remuneration				
The directors of Ellex Medical Lasers Limited during the year were: D.J. Lindh, G.G. Hill, P. Rowland, V. Previn, P. Finlayson				
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party.			521,156	155,705
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party.	521,156	155,705		
The number of directors of the company whose total income falls within each successive $10,000 band of income (commencing at $0):				
$0 – $9,999			1	
$10,000 – $19,999				2
$40,000 – $49,999				1
$50,000 – $59,999			1	
$80,000 – $89,999				1
$100,000 – $109,999			1	
$120,000 – $129,999			1	
$240,000 – $249,999			1	

	Consolidated 2002 $	Consolidated 2001 $	Company 2002 $	Company 2001 $
5. Executives Remuneration				
Aggregate remuneration of executive officers of the company working mainly in Australia and receiving $100,000 or more from the company or from any related party			864,933	-
Aggregate remuneration of executive officers of each entity in the consolidated entity working mainly in Australia and receiving $100,000 or more from the entity for which they are executive officers or from any related party	864,933	-		
	No.	**No.**	**No.**	**No.**
The number of executive officers whose remuneration falls within each successive $10,000 band of income:				
$100,000 – $109,999	1			
$120,000 – $129,999	1			
$130,000 – $139,999	1			
$240,000 – $249,999	1			
$250,000 – $259,999	1			

6. Executive and employees share option plan

The company introduced an Employee Share Option Plan during the year whereby each employee was granted 2,000 options, free of charge, to purchase shares in the company at $0.50 each. These options may be exercised at any time from the date they are allocated until 25 July 2004. Employees will not be able to dispose of any of the options or shares issued upon exercise of the options, before the earlier of the end of a period of 3 years after they acquire them or when they cease employment. At 30 June 2002, executives and employees have acquired a total of 126,000 options under the provisions of the scheme.

As an extension to this plan, the company is offering performance based share options to certain selected employees. Offers under this part of the plan are at the sole discretion of directors of the company.

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

The market price of shares in Ellex Medical Lasers Limited as at 30 June 2002 was $1.13.

	Consolidated 2002 $	Consolidated 2001 $	Company 2002 $	Company 2001 $
7. Remuneration of Auditors				
(a) Auditor of the parent entity				
Auditing the financial report	47,400	7,000	42,400	7,000
Other services	51,680	160,364	32,750	160,364
	99,080	167,364	75,150	167,364
(b) Other auditors				
Auditing the financial report	55,362	-	-	-
	55,362	-	-	-
	154,442	167,364	75,150	167,364

		Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
8. Sales of Assets					
Sales of assets in the ordinary course of business have given rise to the following profits and losses:					
Net losses					
Investments – Mining assets*		26	-	26	-
Property, plant and equipment		17	-	-	-
		43	-	26	-
* Total proceeds of mining assets sold was $224,000. Included in these assets are:					
• Inventories of raw materials and finished goods	$119,500				
• Mining leases	60,000				
• Land and buildings at WDV	36,861				
• Plant and equipment at WDV	33,469				
	$249,830				
9. Current receivables					
Trade receivables		5,073	-	-	-
Allowance for doubtful debts		(105)	-	-	-
		4,968	-	-	-
Mining lease bonds, at cost		8	-	8	-
Accrued income		-	5	-	5
Goods and services tax (GST) recoverable		220	19	3	19
Sundry deposits recoverable		51	-	-	-
Deposit for sale of Jade assets		199	-	199	-
Other – controlled entity		-	-	3,400	-
		5,446	24	3,610	24

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
10. Current inventories				
Raw materials – at net realisable value	1,036	109	-	109
Raw materials – at cost	3,046	-	-	-
WIP – at net realisable value	40	-	-	-
WIP – at cost	782	-	-	-
Finished goods – at net realisable value	102	11	-	11
Finished goods – at cost	1,953	-	-	-
	6,959	120	-	120
11. Current tax assets				
Withholding tax refundable	-	1	-	1
12. Other current assets				
Prepayments	119	487	9	487
13. Non-current receivables				
Mining lease bonds	-	8	-	8
14. Other non-current financial assets				
At cost				
Investment in controlled entity	-	-	24,099	-

The parent Company purchased all the shares in Ellex Medical Pty Ltd (then Taracan Pty Ltd) on 17 July 2001.

The cost of the investment was $24,098,975 of which $23,775,000 was paid in cash.

The remaining $323,975 relates to costs associated with the purchase.

	Consolidated				
	Freehold Land $'000	Buildings $'000	Plant & Equipment $'000	Equipment under finance lease $'000	Total $'000
15. Property, plant and equipment					
Gross carrying amount					
Balance at 30 June 2001	29	11	276	-	316
Additions	740	1,901	542	-	3,183
Disposals	(29)	(11)	(423)	-	(463)
Acquisitions of businesses	-	-	1,185	216	1,401
Balance at 30 June 2002	740	1,901	1,580	216	4,437
Accumulated depreciation/amortisation					
Balance at 30 June 2001	-	(3)	(243)	-	(246)
Depreciation expense	-	(37)	(172)	(28)	(237)
Acquisitions of businesses	-	-	(675)	(92)	(767)
Disposals	-	3	374	-	377
Balance at 30 June 2002	-	(37)	(716)	(120)	(873)
Net book value					
As at 30 June 2001	29	8	33	-	70
As at 30 June 2002	740	1,864	864	96	3,564

	Company			
	Freehold Land $'000	Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 30 June 2001	29	11	276	316
Additions	-	-	-	-
Disposals	(29)	(11)	(276)	(316)
Balance at 30 June 2002	-	-	-	-
Accumulated depreciation/amortisation				
Balance at 30 June 2001	-	(3)	(243)	(246)
Disposals	-	3	243	246
Balance at 30 June 2002	-	-	-	-
Net book value				
As at 30 June 2001	29	8	33	70
As at 30 June 2002	-	-	-	-

15. Property, plant and equipment (continued)

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Aggregate depreciation allocated, whether capitalised as an expense or recognised as part of the carrying amount of other assets during the year:				
Buildings	37	-	-	-
Plant and equipment	172	12	-	12
Equipment under finance lease	28	-	-	-
	237	12	-	12
16. Intangibles				
Goodwill	22,107	-	-	-
Accumulated amortisation	(1,053)	-	-	-
	21,054	-	-	-
Patents, trademarks and licenses	65	-	-	-
Accumulated amortisation	(50)	-	-	-
	15	-	-	-
	21,069	-	-	-
Aggregate amortisation allocated, whether recognised as an expense or recognised as part of the carrying amount of other assets during the year:				
Goodwill	1,053	-	-	-
Patents, trademarks and licenses	41	-	-	-
Accumulated amortisation of patents, trademarks and licenses differs in this note as an accumulated amount already existed for this when the controlled entities were purchased during the year.				

Notes to the Financial Statements for the year ended 30th June 2002

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
17. Deferred tax assets				
Future income tax benefit				
Timing differences	673	-	7	-
Future income tax benefit has been reduced by the provision for deferred income tax attributable to timing differences by the amount of:	7	-	-	-
18. Other non-current assets				
Cowell mining leases – at recoverable amount	-	60	-	60
19. Inventory				
The aggregate carrying amount of inventories recognised and included in the financial statements is as follows:				
Inventories:				
Current (note 10)	6,959	120	-	120
20. Current payables				
Trade payables	2,575	331	28	331
Accruals	336	-	71	-
Payable to directors	40	-	-	-
Other payables	457	-	-	-
	3,408	331	99	331
21. Current interest bearing liabilities				
Unsecured:				
Bank overdraft	571	-	-	-
Secured:				
Finance advance	8	-	-	-
Finance lease liabilities (note 36)	53	-	-	-
	632	-	-	-
22. Current tax liabilities				
Income tax payable	980	-	135	-
23. Current provisions				
Employee entitlements (note 27)	362	-	-	-
Warranty	184	-	-	-
Provision for royalties	147	-	-	-
	693	-	-	-

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
24. Other current liabilities				
Deposit for sale of assets	-	25	-	25
25. Non-current interest-bearing liabilities				
Secured:				
Mortgage on land and buildings	2,000	-	-	-
Finance lease liabilities (note 36)	185	-	-	-
	2,185	-	-	-
The mortgage on land and buildings is in the form of a commercial bill which rolls every 92 days, and is to be reviewed in 2005.				
26. Non-current provisions				
Employee entitlement (note 27)	65	-	-	-
27. Employees entitlements				
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:				
Current (note 23)	362	-	-	-
Non-current (note 26)	65	-	-	-
	427	-	-	-

	2002 No.	2001 No.
Number of employees at end of financial year	111	70

Notes to the Financial Statements for the year ended 30th June 2002

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
28. Non-hedged foreign currency balances				
The Australian dollar equivalent of foreign currency balances included in the financial statements which are not effectively hedged are as follows:				
US Dollars				
Payable				
Current	359	-	-	-
	359	-	-	-
Receivable				
Current	1,882	-	-	-
	1,882	-	-	-
Italian Lira				
Payable				
Current	926	-	-	-
	926	-	-	-
Euro				
Payable				
Current	140	-	-	-
	140	-	-	-
29. Contributed equity				
Contributed equity				
61,091,171 fully paid ordinary shares {2001: 5,587,827 (27,939,138 divided by 5)}	32,280	5,156	32,280	5,156

	2002 No. 000	2002 $'000	2001 No. 000	2001 $'000
Fully paid ordinary share capital				
Balance at beginning of financial year	27,939	5,156	13,969	4,237
Adjust – 1for 5 consolidation	(22,351)	-	-	-
Shares issued during the year:			13,970	919
Shares issued at $0.50	52,709	26,355	-	-
Shares issued at $1.00	2,794	2,794	-	-
Costs of share issues	-	(2,025)	-	-
Balance at end of financial year	61,091	32,280	27,939	5,156

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

Share options

11,691,010 (2001: 2,793,914) options exercisable at $0.50 each and expiring 25 July 2004 were issued and were not exercised at the end of the year.

2,793,923 (2001: Nil) secondary options exercisable at $1.00 each and expiring 31 May 2004 were issued and were not exercised at the end of the year.

2,793,923 primary options exercisable at $1.00 each and expiring 31 May 2002 were exercised during the year.

7,200 options exercisable at $0.50 each and expiring 25 July 2004 were exercised during the year.

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

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

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
30. Reserves				
(a) Reserves comprise				
Foreign currency translation	(223)	-	-	-
General profit reserve	3,115	-	-	-
	2,892	-	-	-
(b) Movements in reserves				
General profit reserve				
Balance at beginning of financial year	-	-	-	-
Transfer from retained profits	3,115	-	-	-
Balance	3,115	-	-	-
Foreign currency translation reserve				
Balance at beginning of financial year	-	-	-	-
Translation of foreign operations	(223)	-	-	-
Balance	(223)			
Balance of reserves at end of financial year	2,892	-	-	-
Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in note 1(g).				
31. Retained losses				
Balance at beginning of financial year	(4,366)	(3,904)	(4,366)	(3,904)
Net profit/(loss)	3,115	(462)	276	(462)
Transfer to general profit reserve	(3,115)	-	-	-
Balance at end of financial year	(4,366)	(4,366)	(4,090)	(4,366)

	Cents per share	2002 Total $'000	Cents per share	2001 Total $'000
32. Dividends				
Fully paid ordinary shares				
Final dividend – franked to 30% (2001: 34%)	Nil	Nil	Nil	Nil

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
Adjusted franking account balance	6,012	-	315	-
From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after tax profits. As a result the 'franking credits available' were converted from $6,012,034 to $2,576,586 as at 1 July 2002. This change in the basis of measurement does not change the value of the franking credits to shareholders who may be entitled to franking credit benefits.				

	Consolidated 2002 Cents per share	Consolidated 2001 Cents per share
33. Earnings per share		
Basic earnings per share	5.8	-8.6
Diluted earnings per share	5.4	-8.6

	2002 $'000	2001 $'000
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Earnings	3,281	(462)

	2002 No.	2001 No.
Weighted average number of ordinary shares	56,731,567	5,358,191

	2002 $'000	2001 $'000
Diluted earnings per share		
The earnings and weighted average number of ordinary and potential shares used in the calculation of diluted earnings per share are as follows:		
Earnings	3,281	(462)

	2002 No.	2001 No.
Weighted average number of ordinary shares and potential ordinary shares	60,835,990	5,358,191

34. Commitments for expenditure

(a) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 36 to the financial statements.

35. Contingent liabilities

Unsecured

The company is currently involved in defending an unfair dismissal claim by a previous managing director of the company (Gemstone). This claim was dismissed by the courts during the financial year but an appeal was lodged against the decision.

The directors have received legal advice that this appeal will be unsuccessful. Consequently, no provision for such costs or losses has been made in the financial statements.

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
36. Leases				
Finance Leases				
Leasing arrangements				
Finance leases relate to motor vehicles and plant and equipment with lease terms of between 3 to 5 years. The consolidated entity has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.				
Finance lease liabilities				
No later than 1 year	68	-	-	-
Later than 1 year and not later than 5 years	205	-	-	-
Minimum finance lease payments	273	-	-	-
Less future finance charges	(35)	-	-	-
Finance lease liabilities	238	-	-	-
Included in the financial statements as:				
Current interest bearing liabilities (note 21)	53	-	-	-
Non-current interest bearing liabilities (note 25)	185	-	-	-
	238	-	-	-
Operating leases				
Leasing arrangements				
Operating leases relate to motor vehicles and business premises with lease terms of between 3 to 5 years. The motor vehicle lease is a novated lease and the ownership of the motor vehicle reverts to the employee at the end of the lease. The business premises lease will be reviewed at the end of the lease term.				
Non-cancellable operating leases				
Not longer than 1 year	55	-	-	-
Longer than 1 year and not longer than 5 years	51	-	-	-
Longer than 5 years	-	-	-	-
	106	-	-	-

37. Controlled entities

Name of Entity	Country of Incorporation	Ownership Interest 2002 %	2001 %
Parent Entity			
Ellex Medical Lasers Limited	Australia		
Controlled Entities			
Ellex Medical Pty Ltd	Australia	100	0
Ellex R& D Pty Ltd	Australia	100	0
Laserex Systems Inc	USA	100	0

The investment in Laserex Systems Inc was purchased in two parcels – 60% was purchased in July 2001 and the remaining 40% was purchased in March 2002.

38. Acquisition of business

Principal Activity	Date of acquisition	Proportion of Shares Acquired %	Cost of Acquisition $'000
Ellex Medical Pty Ltd (formerly Taracan Pty Ltd) Manufacturer and distributor of ophthalmic lasers	17 July 2001	100	24,099

The cost of acquisition comprises cash of $23,775,000 and $323,975 capitalised costs associated with the purchase. Further details of the acquisition of businesses are disclosed in note 41(b) to the financial statements. This note takes into consideration the additional 40% acquisition of Laserex Systems Inc as per Note 37.

39. Segment information

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

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

Geographical Segments	Revenue from External Customers $'000	Segment Assets $'000	Acquisition of Segment Assets $'000
Australia	1,539	34,037	23,892
USA	16,275	4,732	1,399
Europe	3,584	-	-
Asia	4,849	-	-
Other	1,799	-	-
	28,046	38,769	25,291

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

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

40. Related party disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 37 to the financial statements.

(b) Directors remuneration and retirement benefits

Details of directors remuneration and retirement benefits are disclosed in notes 4 and 5 to the financial statements.

(c) Directors equity holdings

	Consolidated		Company	
	2002 No.	2001 No.	2002 No.	2001 No.
The following securities were issued by the company to directors and director related entities during the year:				
Fully paid ordinary shares	4,542,591	-	4,542,591	-
Ordinary options	5,583,516	3,395,370	5,583,516	3,395,370
Secondary options	730,083	-	730,083	-
The following options were converted to ordinary shares by directors and director related entities during the year:	730,083	-	730,083	-
At 30 June 2002 directors and director related entities hold directly, indirectly, or beneficially the following equity interests in the company:				
Fully paid ordinary shares	4,222,674	4,805,370	4,222,674	4,805,370
Ordinary options	5,583,516	3,395,370	5,583,516	3,395,370
Secondary options	730,083	-	730,083	-
All ordinary shares and share options issued to the directors and director related entities during the financial year were made in accordance with a resolution passed at a general meeting of shareholders. Further details of the employee share option plan are contained in the directors' report and note 6 to the financial statements.				

(d) Other transactions with director related entities

A company in which a relative of the Chairman is a shareholder and director, was paid $40,006 for Consulting Services in the ordinary course of business upon normal commercial terms and conditions.

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
41. Notes to the statement of cash flows				
(a) Reconciliation of cash				
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows				
Cash	939	376	699	376
Bank overdraft	(571)	-	-	-
	368	376	699	376
(b) Businesses acquired				
During the financial year, one business was acquired. Details of the acquisition are as follows:				
Consideration				
Cash	26,152	130		
	26,152	130		
Fair value of net assets acquired				
Current assets				
Cash	1,175	-		
Receivables	2,027	-		
Inventories	3,618	-		
Non-current assets				
Property, plant and equipment	599	-		
Other	380	-		
Non-current liabilities				
Payables	(1,022)	-		
Interest bearing liabilities	(169)	-		
Provision for income tax	(1,776)	-		
Provisions	(657)	-		
Net assets acquired	4,175	-		
Goodwill on acquisition	21,977	130		
	26,152	130		
Net cash outflow on acquisition				
Cash consideration	26,152	130		
Less cash balances acquired	(1,175)	-		
	24,977	130		
(c) Financing facilities				
Secured loan and overdraft facilities with various maturity dates through to 2003 and which may be extended by mutual agreement:				
Amount used	2,571	-	-	-
Amount unused	1,429	-	-	-
	4,000	-	-	-

41. Notes to the statement of cash flows (continued)

	Consolidated		Company	
	2002 $'000	2001 $000	2002 $'000	2001 $'000
(d) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities				
Profit from ordinary activities after related income tax	3,281	(462)	276	(462)
(Profit)/loss on sale of non-current assets	43	2	26	2
Depreciation and amortisation of non-current assets	1,331	12	-	12
Amounts written off – intangibles	-	40	-	40
Increase/(decrease) in income tax payable	(931)	-	128	-
Increase/(decrease) in tax balances	-	(1)	-	(1)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(3,866)	(20)	(3,354)	(20)
Current inventories	(3,946)	17	-	17
Other current assets	180	-	349	-
Increase/(decrease) in liabilities:				
Current trade payables	2,647	(43)	(232)	(43)
Other current liabilities	245	(5)	(25)	(5)
Net cash from operating activities	(1,016)	(460)	(2,832)	(460)

(e) Non-cash financing and investing activities

During the financial year, the consolidated entity purchased property, plant and equipment at a cost of $135,000 under finance lease arrangements. This purchase is not reflected in the statement of cash flows.

42. Financial instruments

(a) Significant accounting policies

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

(b) Significant terms and conditions

Forward foreign exchange contracts

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

Outstanding Contracts	Average Exchange Rate		Principal Amount	
	2002 $	2001 $	2002 $'000	2001 $'000
Sell US Dollars				
Less than 3 months	0.5332	-	500	-
3 to 6 months	0.5348	-	375	-
Longer than 6 months	0.5348	-	625	-
	0.5343	-	1,500	-

42. Financial instruments (continued)

(c) Interest rate risk

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

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

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2001.

2001	Average Interest Rate %	Variable Interest Rate $'000	Fixed Interest Rate Maturity Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets	3.8%	370	-	-	-	6	376

The following table details the company's exposure to interest rate risk as at 30 June 2002

	Average Interest Rate %	Variable Interest Rate $'000	Fixed Interest Rate Maturity Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets							
Cash	4.6%	699	-	-	-	-	699

(d) Credit risk

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

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

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

42. Financial instruments (continued)

(e) Net fair value

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

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

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

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

	Carrying Amount		Net Fair Value	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Not Readily Traded				
Foreign exchange contracts	-	-	100	-

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

Shareholder Information as at 17 September 2002

(a) Number of Holders of Equity Securities

Ordinary Share Capital:

61,102,261 fully paid ordinary shares are held by 3,472 individual shareholders. All issued shares carry one vote per share.

Options:

11,690,990 options are held by 401 individual option holders and expire on 25 July 2004.

2,793,853 secondary options are held by 147 individual option holders and expire on 31 May 2004.

109,000 Employee options are held by 54 option holders and expire on 25 July 2004 or termination of employment whichever occurs first.

(b) Distribution of Holders of Equity Securities

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

	Ordinary Shares	Options Expiry 25/07/04	Secondary Options	Employee Options
1-1,000	1,419	66	54	
1,001-5,000	1,017	231	43	54
5,001-10,000	491	36	15	
10,001-10,000	499	56	28	
100,001 and over	46	12	7	

ii) There were 1,108 holders of less than a marketable parcel of 490 ordinary shares
iii) There were 83 holders of less than a marketable parcel of 2,000 secondary options expiry date 31 May 2004.
iv) There were 60 holders of less than a marketable parcel of 833 options expire 25 July 2004

(c) Twenty largest shareholders

	Number of Shares	% of Class
RBC Global Services Australia Nominees Pty Ltd <RA A/C>	9,943,707	16.30
Citicorp Nominees Pty Limited	3,697,202	6.05
Commonwealth Custodial Services Limited	3,058,445	5.01
Sedico Pty Ltd	3,000,000	4.91
National Nominees Pty Ltd	2,663,262	4.36
J P Morgan Nominees Australia Limited	2,047,931	3.35
Mr Guiseppe Canala Superannuation Fund	1,500,000	2.45
Unley Underwriters Pty Limited	1,107,424	1.81
Taycol Nominees Pty Ltd	964,803	1.58
Argo Investments Limited	800,000	1.31
Davan Nominees Pty Ltd	648,072	1.06
Government Superannuation Office State Super Fund	626,406	1.03
Bass Equities Fund No 1 Pty Ltd	618,900	1.01
Sandhurst Trustees Ltd	610,105	1.00
Cogent Nominees Pty Ltd – SMP Accounts	550,200	0.90
HFT Nominees Pty Ltd	540,002	0.88
Victorian Workcover Authority	462,600	0.76
ANZ Nominees Limited	359,400	0.59
Mambat Pty Ltd	329,200	0.54
Dagress Pty Ltd	300,000	0.49

Shareholder Information as at 17 September 2002

(d) Substantial Shareholders

The Companies Register of substantial Shareholders records the following:

Name	No. of Ordinary Shares Held	Percentage of Shares Issued
Westpac Banking Corporation	6,681,082	11.46%
Perpetual Trustees Australia Limited	5,855,107	9.58%
ING Australia Limited	4,676,485	7.65%
Commonwealth Bank of Australia	3,789,842	6.20%

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

Name	No. of Options Held	Percentage of Options Issued
HFT Nominees Pty Ltd	509,691	18.24
Davan Nominees Pty Ltd	213,392	7.64
Mr Mark Lindh	200,000	7.16
Taycol Nominees Pty Ltd	179,029	6.41
Mr Michael Coombes	150,000	5.37
Nurragi Investments Pty Ltd	142,858	5.11
Mr Edwin Leech <Leech Family Trust>	123,215	4.41
Mambat Pty Ltd	80,000	2.86
Mr Brian Bentick, Mrs Teresita Bentick, Mr Peter Bentick <Bentick S/F A/C>	72,411	2.59
Mousetrap Nominees Pty Ltd	71,400	2.56
Foresight Pty Ltd	66,720	2.39
Outstanding Pty Ltd	60,000	2.15
Mr John Lawrence Conole & Mrs Christine Mary Conole	50,000	1.79
Copplemere Ltd	50,000	1.79
Roslyndale Nominees Pty Ltd	50,000	1.79
Mr Edward Taylor & Mr Mark Mickan <Eagle Investments A/C>	50,000	1.79
Mr Michael Whiting, Mrs Tracey Whiting <Whiting Family Super A/C>	45,000	1.61
Mr Marcus La Vincente, Mrs Rosalie La Vincent	42,858	1.53
Mrs Teresite De Guzman Bentick, Dr Brian Bentick	40,000	1.43
Cheval Holdings Pty Ltd	40,000	1.43

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

Name	No. of Options Held	Percentage of Options Issued
Sedico Pty Ltd	3,500,000	29.94
Taycol Nominees Pty Ltd	2,057,182	17.60
Davan Nominees Pty Ltd	1,000,000	8.55
HFT Nominees Pty Ltd	757,916	6.48
Bass Equities Fund No 1 Pty Ltd	552,990	4.73
Mrs Tracey Whiting	219,046	1.87
Davan Nominees Pty Ltd	200,000	1.71
MHGD Pty Ltd	161,100	1.38
Push Button Pty Ltd	140,000	1.20
ANZ Nominees Ltd	125,000	1.07
Republic Securities Ltd	121,600	1.04
Delmos Pty Ltd	102,000	0.87
Mr John Conole, Mrs Christine Conole	100,000	0.86
Ashkirk Pty Ltd	90,000	0.77
Linkshore Pty Ltd	89,614	0.77
Mr Paul Jacobs	88,700	0.76
Riap Holdings Pty Ltd	75,000	0.64
Mr Paul Jacobs	51,961	0.44
Mr David Wildy	51,700	0.44
Jayshine Pty Ltd	51,692	0.44

Contents

Corporate Directory

Directors

David J. Lindh LLB, FTIA, FAICD (Non-Executive Chairman)

Peter R. Rowland B.Sc., MBA (Managing Director)

Victor Previn B.Eng (Director, Corporate Development)

Geoffrey G. Hill B.Econ, MBA, FCPA, ASIA, FAICD
(Director Non-Executive, Chairman Audit Committee)

Company Secretary

Greg Frisby MAICD

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Facsimile: 08 8104 5210

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Adelaide, South Australia, 5000

Auditors

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

Share Registry

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Adelaide, South Australia, 5000

Web Address

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

Stock Exchange

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

ASX Code

ELX

Ellexmedical

Glossary

OF TERMS

Photocoagulator	A device that uses light to coagulate blood vessels by raising their temperature. It is used to treat diseases of the retina.
Photocoagulation	Application of intense light or laser beams to burn or destroy selected intraocular structures.
Intraocular	Inside the eye.
Photodisruptor	A device that uses light to rupture tissue with plasma initiated acoustic waves. It is used to create a hole in the opaque scar tissue that forms inside a patient's eye.
Solid state laser	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 systems certification.
Alcon	Alcon Laboratories Incorporated, a company incorporated in the USA. A major Original Equipment Manufacturer (OEM) customer of Ellex.
Lumenis	A major OEM customer of Ellex. Lumenis is a NASDAQ listed company.
AMD	Age-related Macular Degeneration.
Macular Degeneration	One of the most common causes of decreased vision after age 60. Similar changes can occur in younger patients as part of a hereditary disease.
Refractive error	Optical defect in an unaccommodating eye.
Cataract	Opacity or cloudiness of the crystalline lens.
Crystalline Lens	Natural lens of the eye.
Glaucoma	Group of diseases characterised by increased intraocular pressure resulting in damage to the optic nerve and retinal fibres.
Posterior	On or near the back of an organ or of the body.
Capsulotomy	An incision into the lens capsule, used for cataract removal.
Angiogram	Photographic image showing blood vessels.
Diabetic Retinopathy	Spectrum of retinal changes accompanying long term diabetes.
Open Angle Glaucoma	Most common type of glaucoma, usually found In both eyes.
Epithelial	Membranous layer of cells covering the cornea, conjunctiva and eyelid.