2010 Annual Report

ellex

FY10 Highlights

Sustainable Growth

As a clear sign of the Company's improved operational performance and prudent fiscal management, Ellex returned to profitable operations during the 2010 financial year despite a fall in revenue. While the results are mixed regionally, with the United States and Europe continuing to face challenging sales environments, our distributor sales business in Asia performed exceptionally well, achieving revenue growth of 23 percent. We also achieved a solid cash position of $3.2 million, demonstrating the strength of our balance sheet. Continued efforts to tighten cost control and to invest prudently in the future growth of our business set the foundation for a more sustainable business model. Ellex also made progress in its efforts to improve liquidity through working capital management and operating cost reduction measures that delivered a debt reduction of approximately $2.6 million (net of cash assets).

Product Pipeline

Ellex introduced two new products during the year. In October 2009 we launched the new-generation Eye Cubed™ ultrasound. This new-generation device has contributed significantly to increased market share, allowing us to access new customer markets in Europe and Asia. Since acquiring Sacramento-based ultrasound manufacturer Innovative Imaging, Inc. in 2006 we have successfully integrated the diagnostic ultrasound product portfolio into our business. Indeed, ultrasound has proven to be a good fit for the Ellex brand: we are now able to offer customers tools for both the diagnosis and treatment of eye disease. Also launched during the year was the Integre Yellow™ laser for the treatment of retinal disease. Designed principally for Japanese market, the laser has since been released in the USA, Europe and Australia.

Blue-Sky Development

During the 2010 financial year we made significant progress with Ellex Retinal Regeneration Therapy (Ellex 2RT™). In November 2009 the Ellex 2RT™ Research Program was awarded a $0.54 million Victorian Government grant to conduct a clinical trial investigating the efficacy of laser treatment for Age-Related Macular Degeneration (AMD), in partnership with the Centre for Eye Research Australia (CERA). In parallel with our clinical trials program we are also making progress along the commercialisation pathway. During the year we successfully executed a sublicensing agreement with Massachusetts General Hospital, enabling us to bring Ellex 2RT™ to market in the United States. Over the coming year we will continue to pursue the many other commercialisation opportunities available for this breakthrough technology.

To Our Shareholders

The past 12 months have demonstrated the resilience and resourcefulness of Ellex from a financial and organisational standpoint. In response to ongoing challenges in the global economy, we have built a more sustainable business model that includes improved operating efficiencies, continued cost-control initiatives and reduced debt reliance.

This is most clearly demonstrated by our improved profit performance during the period, as well as our success in positioning the Company and its financial model for sustained growth.

The Company's Net Profit Before Tax (NPBT) for the financial year ended 30 June 2010 was $3.6 million, a 16 percent increase over the previous year. In addition, Earnings Before Interest Tax and Depreciation (EBITDA) totaled $6.4 million, up 16 percent compared to the 2009 financial year[1]. Ellex's balance sheet is also strong, with a cash position of $3.2 million.

Whilst operational profit increased, revenues were down 19 percent to $47.4 million due to prevailing world market conditions. The good news is that conditions are expected to improve worldwide from 2011 onwards as industry demand strengthens, and we are well positioned to ensure that improvements in global markets directly benefit our bottom line.

Soft world markets continued to pose challenges for our direct sales markets during the period. From a regional perspective, revenue fell in the United States, Japan and Australia due partly to the favourable exchange rates experienced in the 2009 financial year. In Asia, however, our distributor sales business performed exceedingly well, achieving an increase in revenue of 23 percent. Following this positive result we will look to leverage our presence in Asia in the future in order to foster further growth.

In order to ensure measured, sustainable growth, we implemented a number of initiatives designed to make the Ellex business more flexible and responsive to changing market conditions, including tighter cost control and prudent investment. Ellex also made positive progress in its efforts to improve liquidity. Stringent working capital management and operating cost reduction measures delivered a debt reduction of approximately $2.6 million (net of cash assets).

[1] Excluding the impact of non-recurring items in the prior comparable period.

Ellex continued to invest in its product development pipeline during the year, introducing two new products. In October 2009 we launched the new-generation Eye Cubed™ ultrasound system. Already recognised as the industry's premier diagnostic ultrasound, this new-generation device has allowed us to access new customer markets in Europe and Asia. This, in turn, contributed significantly to increased market share.

Also launched during the period was an integrated yellow laser, Integre Yellow™, for the treatment of retinal disease. The Integre Yellow™ was designed principally for the Japanese market, where the yellow wavelength is seen as the preferred choice for retinal treatment. It has since been released in the United States, Europe and Australia.

Successful companies grow through innovation, and Ellex remains committed to developing new and better treatments for the leading causes of blindness.

During the 2010 financial year we made significant progress with Ellex Retinal Regeneration Therapy (Ellex 2RT™). Now nearly 10 years in the making, Ellex 2RT™ is a breakthrough laser therapy which has the potential to positively influence the lives of millions of people suffering from retinal disease and offers considerable commercial potential.

In November 2009 the Ellex 2RT™ Research Program was awarded a $0.54 million Victorian Government grant to conduct a clinical trial investigating the efficacy of laser treatment for Age-Related Macular Degeneration (AMD) – the leading cause of blindness in the developed world. The interim results from this trial, announced in May 2010, confirm the potential of Ellex 2RT™ to halt AMD disease progression and preserve visual function before irreversible vision loss occurs.

In light of these positive results, we will now look to undertake a multi-centre, randomised trial in Australia and overseas in order to validate our clinical findings to date – before pursuing the full range of commercial opportunities available.

Looking ahead, Ellex will continue to leverage its proprietary technology and strong distribution and direct sales channels to deliver continued growth and value to shareholders. We have confidence in our strong, sustainable business model, as well as a commercialisation program for our new, proprietary technologies. Our goal is to continue to deliver improved operational and profit performance while continuing to invest in future growth. It is our belief that aging demographics worldwide and the ongoing growth in age-related eye disease will continue to create demand for our products and our technology.

Victor Previn
CHAIRMAN

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Corporate Governance Statement

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

Board of Directors and its Committees

Role of the Board

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

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

Board Process

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

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

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

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

Composition of the Board

The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report on page 18 of this financial report.

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

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

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

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated group are set out in Note 30 to the financial statements.

Nomination Committee

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

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

Director Education

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

Dealings in Company Shares

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

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

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

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

Independent Professional Advice and Access to Company Information

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

Remuneration Committee

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

The members of the Remuneration Committee during the year were:

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

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

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

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

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

Audit Committee

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

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

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

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

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

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

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

The responsibilities of the Audit Committee include:

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

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

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

Internal Control Framework

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

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

Internal Audit

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

Australian Quality Standard AS/NZS ISO 13485-2003

The consolidated group strives to ensure that its products are of the highest standard. In pursuance of this, the consolidated group has achieved accreditation to AS/NZS ISO 13485-2003 in each of its business segments.

Business Risk Management

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

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

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

Further details of the Company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in Note 32 to the financial statements.

Comprehensive practices are established such that:

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

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

Financial reporting

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

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

Ethical Standards

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

Code of conduct

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

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

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

Shareholder Communications

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

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

All documents that are released publicly are made available on the consolidated group's internet website at www.ellex.com.

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

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

Directors' Report

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Directors

Victor Previn (Chairman) is 52 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor is currently an Executive Technical Director who has considerable experience in the ophthalmic laser industry and was one of the original founders and shareholders of Ellex. He is also a member of the Audit Committee and the Remuneration Committee.

Alex Sundich is 46 years old and was appointed a non-executive director on 22 July 2005. Alex is currently an Executive Director of Harvest Capital Partners, an independent investment firm he co-founded in 2008. From 2002 to 2008, Alex was a senior executive in the funds management industry. Prior to this, he was an investment banker with Goldman Sachs and CSFB, involved in Mergers & Acquisitions and capital raisings. Alex is currently a non-executive director of Eastern Star Gas Limited. He is also Chairman of the Audit Committee and the Remuneration Committee.

Professor John Marshall is 66 years old and was appointed a non-executive director on 11 October 2007. Professor John Marshall is an internationally recognised expert on laser and light bio-effects in the field of ophthalmology. He is a Fellow of the Academy of Medical Sciences, an Emeritus Professor of Ophthalmology at King's College London and an honorary distinguished Professor in Visual Science at the University of Cardiff. He is also honorary Professor of Ophthalmology in the Institute of Ophthalmology, University College London. Professor Marshall is Chairman of Ellex's Medical Advisory Board and has over 40 years of ophthalmology experience. Professor Marshall also held the original patents on excimer laser refractive surgery.

Malcolm Plunkett is 56 years old was appointed a director on 17 October 2008. Malcolm has spent nearly four decades involved in the design and manufacture of industrial and scientific electronic devices for medical industries. Appointed Vice President of Advanced Research in late June 2005, Malcolm plays a significant role in directing the Company's growth into new markets. Recently, Malcolm has led the Ellex 2RT™ (Retina Regeneration Therapy) program, directing clinical trials and ongoing laboratory experimentation.

Giuseppe Canala is 63 years old and was appointed non-executive director on 17 October 2008 and Company Secretary on 27 October 2008. Giuseppe is an experienced company director with a range of laser-related companies, with a professional engineering and economics background. As an original co-founder of Ellex, he has served the Company in a broad range of management roles, including Director of Engineering, Operations and Managing Director. He also served as Chairman from 1990 to 2001.

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

Company Secretary

- Giuseppe Canala – appointed Company Secretary 27 October 2008.

Principal activities

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

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

Review of operations

The Company delivered improved operational and profit performance during FY10. The year ended 30 June 2010 saw Ellex achieve consolidated profit before tax of $3.6 million. This strong result compares to a loss of $23.2 million for FY09, and profit before tax of $3.1 million excluding one-off items in FY09.

A continued focus on cost control initiatives, improved operating efficiencies and reduced debt reliance delivered improved returns and contributed to a strong balance sheet. The Company made positive progress in its efforts to improve liquidity, with stringent working capital management achieving a debt reduction of over $2 million (net of cash assets).

The Company continued to invest in new product and technology development in FY10, with approximately 6% of revenue directed to these activities. This was partially offset by revenue from government-awarded Research and Development (R&D) grants, which resulted in net R&D expenditure of approximately 4% of revenue.

In October 2009 the fourth generation Eye Cubed™ diagnostic ultrasound system was launched at the American Academy of Ophthalmology (AAO) in San Francisco. Already recognised as a market leader, this new-generation device has provided access to previously under-tapped markets in Europe and Asia, and has significantly expanded the Company's market share.

In January 2010 the Company launched the IntegreYellow™ – the world's first laser system to offer the yellow wavelength in a fully integrated design. Developed principally for the Japanese market, the IntegreYellow™ has since been released in the United States, Europe and Australia.

R & D activities in FY10 focused on the ongoing development of Ellex 2RT™ (Retinal Regeneration Therapy), a breakthrough laser therapy which has the potential to positively influence the lives of millions of people suffering from retinal disease. In November 2009, the Ellex 2RT™ Research Program was awarded a $0.54 million Victorian Government grant to conduct a clinical trial investigating the efficacy of laser treatment for Age-Related Macular Degeneration (AMD) – the leading cause of blindness in the developed world. The interim results from this trial, announced at the annual meeting of the Association for Research in Vision and Ophthalmology (ARVO) in Fort Lauderdale in May 2010, confirm the potential of Ellex 2RT™ to halt AMD disease progression and preserve visual function before irreversible vision loss occurs. In light of these positive results, Ellex will look to undertake further clinical trials in FY11 in order to validate the clinical findings to date. Ellex also made positive progress along the commercialisation pathway for Ellex 2RT™ during FY10, securing a sublicensing agreement with Massachusetts General Hospital, effectively enabling the Company to bring Ellex 2RT™ to market in the US.

Distributors

Due to prevailing world market conditions, sales through the Company's indirect distribution network were down 26% to $12,669 thousand in FY10. Continued uncertainty in global financial markets led to a weakening in demand for capital expenditure as customers felt the strain of tightening credit markets.

Despite the challenging economic environment, sales traction across the Asian region improved, contributing to revenue growth of 23% compared to FY09. This strong result signals the potential of the Asian market to contribute significantly to growth of the Ellex business, and the Company will continue to invest in strengthening its Asian presence in FY11.

Direct

Sales through the Company's direct sales subsidiaries were down 16% to $34,736 thousand in FY10. This reduction in sales revenue can be attributed to softer world markets, and to the volatile, favourable exchange rates experienced in FY09; in particular, the higher Japanese yen which contributed to an increase in revenue of 40% for the Ellex Japan business during 2008 to 2009. From 2009 to 2010, the equivalent Australian dollar sales in Japan were down 16% due to a more stable foreign exchange.

The German business unit, established in June 2008, continued to perform strongly in the second year of operations in FY10, exceeding budget projections. In Australia, the government tax stimulus package through to 31 December 2009 contributed to growth in sales revenue, whilst the Company's US business unit also started to show positive signs of a recovery in the fourth quarter of FY10. Most importantly, the Company's direct business units are well-positioned for a period of renewed industry demand, anticipated to take effect from mid FY11 onwards.

Financial position

As at 30 June 2010, the net assets of the consolidated group increased by $3,136 thousand from 30 June 2009 to $33,187 thousand. This positive result is largely due to the following factors:

- Increase in cash assets of $1,588 thousand
- Reduction in borrowings of $1,018 thousand
- Improved operating performance of the Group.

The consolidated group's strong financial position has enabled the Group to reduce its borrowings by $1,018 thousand while maintaining a healthy working capital ratio. The Group's working capital, comprising current assets less current liabilities, has improved from $13,380 thousand in 2009 to $17,949 thousand in 2010.

The directors believe that the Group is now in a strong, stable financial position. Moving forwards, the Company will continue to leverage its proprietary technology and strong distribution and sales channels in order to deliver continued growth and value to shareholders. The Board's goal is to continue to foster improved operational and profit performance whilst investing in the future growth of the Ellex business.

Significant changes in state of affairs

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

Subsequent events

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

Future developments

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

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

Dividends

No dividend has been declared with respect to the year ended 30 June 2010 (30 June 2009: Nil).

Share options

Share options granted to directors and executives

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

Share options on issue at the date of this report or exercised during the year

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Ellex Medical Lasers Limited	66,667	Ordinary	$0.40	30/09/2010
Ellex Medical Lasers Limited	66,666	Ordinary	$0.70	30/09/2010

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

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

Indemnification of officers and auditors

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

The Company has not otherwise, during or since the end of financial year indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, twelve Board meetings, three Audit Committee meetings and one Remuneration Committee meeting were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee	
	Held*	Attended	Held*	Attended	Held*	Attended
V Previn	12	12	3	3	1	1
A Sundich	12	10	3	3	1	1
J Marshall	12	10	N/A	N/A	N/A	N/A
G Canala	12	12	3	3	N/A	N/A
M Plunkett	12	9	N/A	N/A	N/A	N/A

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

Directors' shareholdings

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

Directors	Interests of Directors		Interests of Director Related Entities	
	Fully Paid Ordinary Shares	Options	Fully Paid Ordinary Shares	Options
V Previn	-	-	9,316,031	-
A Sundich	1,000,000	-	5,300,000	-
J Marshall	50,000	-	-	-
M Plunkett	104,000	66,667	-	-
G Canala	-	-	4,061,788	-

Remuneration report

This remuneration report, which forms part of the director's report, sets out information about the remuneration of the directors and executives for the financial year ended 30 June 2010. The prescribed details for each person covered by this report are detailed below under the following headings:

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

Director and executive details

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

- Victor Previn – Chairman
- Alex Sundich – Non-executive Director
- John Marshall – Non-executive Director
- Giuseppe Canala – Non-executive Director / Company Secretary
- Malcolm Plunkett – Executive Director

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

- Simon Luscombe – Chief Executive Officer
- Melanie Young – Chief Financial Officer

Remuneration policy for directors and executives

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

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

Relationship between the remuneration policy and company performance

Non-executive directors

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

The Chairman receives the base fee plus $10,000 per annum, and an additional salary in his capacity as an executive. Directors' fees cover all main Board functions but exclude membership of the Audit Committee. A fee of $5,000 per annum is payable for membership of the Audit Committee. The Company Secretary receives an additional salary in addition to his capacity as a director of $25,000. In addition, the Company pays compulsory superannuation. The Company does not have a formal Board Retirement scheme. Non-executive directors do not receive any performance related remuneration.

Executive directors and executive management

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

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

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

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

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

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

There is no policy or monitoring of key management personnel's limiting their risk in relation to issued options.

The remuneration of key management personnel is based on an annual assessment of the individual's performance with reference to external data pertaining to executive remuneration. There is no link between the Company's performance and the setting of remuneration except as discussed on page 19 in relation to profit sharing and options for certain executives.

Profit targets are defined as either Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the regional business unit managers or Earnings Before Tax (EBT) for corporate executives. Other financial targets for regional business unit managers include debtor days and inventory holdings. These have been chosen as the key measures by the Board as the most reflective performance indicators for the organisation at this point in its life cycle.

Key terms of employment contracts

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

Simon Luscombe – Chief Executive Officer

- Term of agreement
- Total remuneration package of $267,020 inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of 90 days' notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice
- A short-term incentive linked to achievement of profit targets on an annual basis equivalent to 4% of any EBT above a target of $3,550,000 for the year to 30 June 2010. To be reviewed annually thereafter.

All Other Executives (as listed on page 14)

- Term of agreement – no fixed term
- Base salary inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of up to three months' notice (depending on individual contracts) and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice
- A short-term incentive linked to achievement of profit and other financial targets on an annual, half-yearly or quarterly basis

The tables below set out summary information about the consolidated group's earnings and movements in shareholder wealth for the five years to June 2010.

	30 June 2010 $'000	30 June 2009 $'000	30 June 2008 $'000	30 June 2007 $'000	30 June 2006 $'000
Revenue (i)	47,420	58,310	50,367	44,421	34,593
EBITDA	6,360	(20,735)	3,912	4,613	4,996
Net profit/(loss) before tax	3,563	(23,229)	1,858	2,824	3,839
Net profit/(loss) after tax	3,760	(22,615)	4,834	4,368	3,693

(i) Revenue includes revenue from sale of goods of ongoing operations and interest received as per note 2 in the accounts in each financial year.

	30 June 2010	30 June 2009	30 June 2008	30 June 2007	30 June 2006
Share price at start of year	0.130	0.295	0.830	0.625	0.240
Share price at end of year	0.150	0.130	0.295	0.830	0.625
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	4.5 cps	(29.6) cps	6.93 cps	6.93 cps	6.02 cps
Diluted earnings per share	4.5 cps	(29.6) cps	6.84 cps	6.75 cps	5.75 cps

Remuneration of directors and executives

Elements of director and executive compensation

Compensation packages contain the following key elements:

a) Salary/fees

b) Benefits – including the provision of motor vehicle, superannuation and health benefits

c) Incentive schemes – including performance-related bonuses and share options under the Directors' and Employee Share Option plan as disclosed in note 6 to the financial statements.

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

	Short-term employee benefits			Post employment benefits				
2010	Salary & Fees	Bonus	Non-monetary benefits	Pension & super-annuation	Other	Share based payments - Options	Other long-term benefits	Total
	$	$	$	$	$	$	$	$
Directors								
V Previn	125,333	-	-	7,500	-	-	-	132,833
J Marshall	18,170	-	-	-	-	-	-	18,170
G Canala	47,083	-	-	4,238	-	-	-	51,321
M Plunkett	130,000	-	-	11,700	2,500	-	-	144,200
A Sundich	25,000	-	-	2,250	-	-	-	27,250
Executives								
S Luscombe (ii)	235,988	12,750	-	15,789	5,900	-	-	270,427
M Young	111,715	-	5,516	10,246	2,793	-	-	130,270
Total	**693,289**	**12,750**	**5,516**	**51,723**	**11,193**	**-**	**-**	**774,471**

2009	Short-term employee benefits			Post employment benefits		Share based payments - Options	Other long-term benefits	Total
	Salary & Fees	Bonus	Non-monetary benefits	Pension & super-annuation	Other			
	$	$	$	$	$	$	$	$
Directors								
V Previn	75,000	-	-	6,750	-	-	-	81,750
J Marshall	20,000	-	-	-	-	-	-	20,000
K McGuinness (i)	169,707	-	14,278	7,128	-	(12,400)	-	178,713
G Canala	48,415	-	-	1,706	-	-	-	50,121
M Plunkett	121,190	-	-	11,069	3,030	-	-	135,289
A Sundich	25,000	-	-	2,250	-	-	-	27,250
P Falzon	-	-	-	-	-	(53,680)	-	(53,680)
Executives								
Y Isoda (ii)	269,121	172,341	16,777	-	-	-	-	458,239
B Swaim	241,603	-	34,178	24,753	13,533	-	-	314,067
C Warren (ii)	296,448	43,351	-	-	-	-	-	339,799
A Stevens (i) (iii)	81,871	11,353	9,165	7,302	-	-	-	109,691
S Luscombe (ii)	182,427	23,000	-	16,972	4,561	-	-	226,960
M Greenwood (vii)	53,320	-	-	4,799	1,333	-	-	59,452
R Stone (iv)	148,007	17,100	12,005	15,484	3,700	-	-	196,296
M Young	95,193	-	-	8,553	2,380	-	-	106,126
J Edwards	43,904	-	-	3,951	1,098	-	-	48,953
D Watton	129,123	-	-	11,621	3,228	-	-	143,972
A Mitchell (i)	100,588	-	-	4,387	-	-	-	104,975
Total	**2,100,917**	**267,145**	**86,403**	**126,725**	**32,863**	**(66,080)**	**-**	**2,547,973**

Bonuses granted as compensation and additional comments – 2009 and 2010

(i) Included in the salary and fees paid during the year were termination benefits to Mr K McGuinness of $107,640, Mr A Stevens of $15,348 and Mr A Mitchell of $51,838.

(ii) In line with performance-based elements of the contracts with key management personnel, bonuses paid as part of salary were granted during the years ended 30 June 2010 and 2009 based on specific criteria for regional performances during each quarter of the year. They are based on net contribution to profit, debtor days and inventory days for the following:

- Mr S Luscombe received bonuses of $12,750 (2009: $23,000) during the year in relation to his previous position of General Manager, Ellex Australia.
- Mr Y Isoda was not considered key management personnel in 2010 and received bonuses of $172,341 during 2009.
- Ms C Warren was not considered key management personnel in 2010 and received bonuses of $43,351 during 2009.

(iii) In line with performance-based elements of the contracts with key management personnel, Mr A Stevens was paid a bonus of $11,353 in September 2008 as part of his salary based on specific criteria for departmental performance during the 2009 year.

(iv) Mr R Stone was not considered key management personnel in 2010. In line with performance based elements of the contracts with key management personnel, Mr R Stone was paid bonuses of $17,100 during 2009.

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

Value of options issued to directors and executives

No options were granted or exercised during the year ended 30 June 2010 in relation to directors or executives. The following table discloses the value of options lapsed during and since the year ended 30 June 2010:

2010	Value of options granted at grant date $	Value of options exercised at exercise date $	Value of options lapsed at the date of lapse (i) $
M Plunkett	4,474	-	4,474

(i) The value of options lapsed during the period due to staff leaving is determined assuming the vesting condition had been met.

Value of options - basis of calculation

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

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

Proceedings on behalf of the Company

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

Non-audit services

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 is included on page 24 of the financial report.

Rounding off of amounts

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

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

On behalf of the Directors

Victor Previn

Chairman

Adelaide, 26 August 2010

Grant Thornton

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ELLEX MEDICAL LASERS LTD

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Ellex Medical Lasers Ltd for the year ended 30 June, 2010 , I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance

Signed at Wayville on this 26th day of August 2010

Directors' Declaration

The directors declare that:

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

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

c) the Chief Executive Officer and the Chief Financial Officer have each declared that the financial records of the Company for the financial year have been properly maintained in accordance with S286 of the Corporations Act 2001, the financial statements and notes comply with the Accounting Standards and the financial statements and notes for the financial year give a true and fair view; and

d) these financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 28 to the financial statements
will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors

Victor Previn

Chairman

Adelaide, 26 August 2010

Consolidated Statement of Comprehensive Income

for the financial year ended 30 June 2010

	Note	Consolidated Group	
		2010 $'000	2009 $'000
Revenue	2	47,420	58,310
Other income	4(a)	1,324	1,159
Changes in inventories of finished goods and work in progress		1,116	(1,086)
Raw materials and consumables used		(22,341)	(28,106)
Employee benefits expense	4(b)	(14,818)	(16,542)
Depreciation and amortisation expense	4(b)	(2,394)	(1,857)
Legal fees	4(b)	(64)	(179)
Advertising and marketing		(1,551)	(1,806)
Finance costs	3	(403)	(637)
Product development		(296)	(319)
Realised foreign exchange loss	4(b)	(87)	(2,975)
Mark-to-market unrealised foreign exchange loss		-	(664)
Impairment of capitalised development expenditure	4(b)	-	(672)
Impairment of goodwill	4(b)	-	(22,367)
Other expenses		(4,343)	(5,488)
Profit/(Loss) before tax	**4**	**3,563**	**(23,229)**
Income tax benefit	5	197	614
Profit/(Loss) after tax		**3,760**	**(22,615)**
Other comprehensive income			
Exchange differences on translating foreign operations		(636)	3,281
Total comprehensive income for the year		**3,124**	**(19,334)**
Profit/(Loss) attributable to:			
Members of the parent		3,820	(22,616)
Non-controlling interest		(60)	1
		3,760	**(22,615)**
Total comprehensive income attributable to:			
Members of the parent		3,184	(19,335)
Non-controlling interest		(60)	1
		3,124	**(19,334)**
Earnings per share:			
From continuing operations:			
Basic (cents per share)	24	4.5	(29.6)
Diluted (cents per share)	24	4.5	(29.6)

Notes to the financial statements are included on pages 30 to 79.

Consolidated Statement of Financial Position

as at 30 June 2010

	Note	Consolidated Group 2010 $'000	Consolidated Group 2009 $'000
Current assets			
Cash and cash equivalents	31(a)	3,220	1,632
Trade and other receivables	8	13,017	14,258
Inventories	9	17,099	15,883
Current tax assets	5(b)	26	483
Other	10	848	899
Total current assets		**34,210**	**33,155**
Non-current assets			
Trade and other receivables	8	295	242
Property, plant and equipment	11	2,995	3,550
Deferred tax assets	5(c)	7,473	7,208
Other intangible assets	12	704	609
Capitalised development expenditure	13	5,901	6,141
Total non-current assets		**17,368**	**17,750**
Total assets		**51,578**	**50,905**
Current liabilities			
Trade and other payables	15	5,903	6,737
Borrowings	16	7,814	10,486
Other financial liabilities	17	-	389
Provisions	18	1,941	1,540
Other	19	603	623
Total current liabilities		**16,261**	**19,775**
Non-current liabilities			
Borrowings	16	1,654	-
Provisions	18	232	293
Other liabilities	20	244	786
Total non-current liabilities		**2,130**	**1,079**
Total liabilities		**18,391**	**20,854**
Net assets		**33,187**	**30,051**
Equity			
Issued capital	21	35,188	35,176
Reserves	22	227	863
Accumulated losses	23	(2,379)	(6,199)
		33,036	**29,840**
Parent entity interest		33,036	29,840
Non-controlling interests		151	211
Total equity		**33,187**	**30,051**

Notes to the financial statements are included on pages 30 to 79.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2010

	Issued Capital $'000	Share Option Reserve $'000	Foreign Currency Reserve $'000	Minority Interest $'000	Accumu-lated Losses $'000	Total $'000
Balance at 1 July 2008	33,635	113	(2,434)	210	16,417	47,941
Total comprehensive income for the year	-	-	3,281	1	(22,616)	(19,334)
Shares issued / Options lapsed during the year	1,541	(97)	-	-	-	1,444
Subtotal	**35,176**	**16**	**847**	**211**	**(6,199)**	**30,051**
Dividends paid or provided for	-	-	-	-	-	-
Balance at 30 June 2009	**35,176**	**16**	**847**	**211**	**(6,199)**	**30,051**
Balance at 1 July 2009	35,176	16	847	211	(6,199)	30,051
Total comprehensive income for the year	-	-	(636)	(60)	3,820	3,124
Shares issued during the year	12	-	-	-	-	12
Subtotal	**35,188**	**16**	**211**	**151**	**(2,379)**	**33,187**
Dividends paid or provided for	-	-	-	-	-	-
Balance at 30 June 2010	**35,188**	**16**	**211**	**151**	**(2,379)**	**33,187**

Notes to the financial statements are included on pages 30 to 79.

Statement of Cash Flows

for the financial year ended 30 June 2010

	Note	Consolidated Group	
		2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers		48,131	57,639
Grant income received		470	469
Payments to suppliers and employees		(43,898)	(53,103)
Interest and other costs of finance paid		(403)	(637)
Income tax refund		389	-
Income tax paid		-	(404)
Net cash provided by/(used in) operating activities	**31(c)**	**4,689**	**3,964**
Cash flows from investing activities			
Interest received		15	12
Payment for deposits		(53)	(74)
Payment for property, plant and equipment		(275)	(886)
Proceeds from sale of property, plant and equipment		1	34
Payment for intangible assets		(144)	(182)
Payment for earnouts to previous owners		(724)	(1,274)
Payments for capitalised development costs		(1,229)	(1,981)
Net cash used in investing activities		**(2,409)**	**(4,351)**
Cash flows from financing activities			
Proceeds from issues of shares		-	1,638
Payment for share issue costs		-	(97)
Proceeds from borrowings		1,915	4,995
Repayment of borrowings		(2,198)	(4,771)
Net cash provided (used in)/by financing activities		**(283)**	**1,765**
Net increase/(decrease) in cash and cash equivalents		1,997	1,378
Cash and cash equivalents at the beginning of the financial year		1,601	(22)
Effects of exchange rate changes on the balance of cash held in foreign currencies		(381)	245
Cash and cash equivalents at the end of the financial year	**31(a)**	**3,217**	**1,601**

Notes to the financial statements are included on pages 30 to 79.

Notes to the Financial Statements for the financial year ended 30 June 2010

1. Significant accounting policies

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

Statement of compliance

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

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

The financial statements were authorised for issue by the directors on 26 August 2010.

Basis of preparation

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

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

Adoption of New & Revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating unit (CGUs) of the entity. Following is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Following is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

1. Significant accounting policies continued

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue, but not yet effective.

Initial application of the following Standards has not yet been fully assessed, however initial indications are that they will not have any material impact on the financial report of the consolidated group:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
AASB 2009-8 'Amendments to Australian Accounting Standards'	1 January 2010	30 June 2011
AASB 9 'Financial Instruments'	1 January 2013	30 June 2014
AASB 124 'Related Party Disclosures'	1 January 2011	30 June 2012
AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 July 2009	30 June 2010
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising tom the Annual Improvements Project'	1 January 2010	30 June 2011
AASB3009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'	1 January 2010	30 June 2011
AASB 2009-8 'Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters'	1 January 2010	30 June 2011
AASB 2009-10 'Amendments to Australian Accountings Standards – Classification of Rights Issues'	1 February 2010	30 June 2011
AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2009-13 'Amendments to Australian Accounting Standards arising from Interpretation 19'	1 July 2010	30 June 2011
AASB 2009-14 'Amendments to Australian Accounting Standards – Prepayments of Minimum Funding Requirement'	1 January 2011	30 June 2012

1. Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Impairment of capitalised development expenditure

Capitalised development expenditure is reviewed at least annually and tested for impairment. A policy outlining the basis for capitalisation and amortisation exists to aid management in determining whether the carrying value is appropriate. This is based on both historical and forecast data to test recoverability of the carrying value. The carrying value of $5,901 thousand is made up of products currently being sold and expected to be sold within the period of amortisation identified at note 1(n).

Warranty provision

The warranty provision is based on a policy that determines the likelihood of warranty expenses being incurred in the future and the associated costs of warranty based on historical information. The carrying value of $444 thousand is deemed to be appropriate and consistent with the warranty policy.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance date was Nil (2009: Nil). Goodwill was revised based on a new estimate of the final earn-outs payable to the previous owners of the businesses acquired and then an impairment loss of $22,367 thousand was recognised in 2009.

Accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information presented in these financial statements for the year ended 30 June 2009.

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

(a) Borrowings

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

(b) Business combinations

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

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' (2004) are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

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

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

1. Significant accounting policies continued

(c) Cash and cash equivalents

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

(d) Derivative financial instruments

The consolidated group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts and collar options. Further details of derivative financial instruments are disclosed in note 32 to the financial statements.

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

(e) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, staff bonuses, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the compensation rate expected to apply at the time of settlement.

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

Contributions to defined contribution super plans are expensed when incurred.

(f) Financial assets

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

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

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss and includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 32.

Loans and receivables

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

1. Significant accounting policies continued

(f) Financial assets continued

Impairment of financial assets

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

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

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

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

(g) Financial instruments issued by the Company

Debt and equity instruments

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

Other financial liabilities

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

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

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

(h) Foreign currency

The individual financial statements of each entity in the consolidated group are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Ellex Medical Lasers Limited and the presentation currency for the consolidated financial statements.

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

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

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

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

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

1. Significant accounting policies continued

(i) Goods and services tax

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

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

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

(j) Goodwill

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

(k) Government grants

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

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

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

(l) Impairment of assets

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

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

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

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

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

1. Significant accounting policies continued

(m) Income tax

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

Tax consolidation

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

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

(n) Intangible assets

Patents, trademarks and licences

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

Research and development costs

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

1. Significant accounting policies continued

(n) Intangible assets continued

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

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

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

- Capitalised development costs 5 – 15 years

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(p) Leases

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

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

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

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

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

(q) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated group, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 28 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

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

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

1. Significant accounting policies continued

(r) Property, plant and equipment

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

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

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

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

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

(s) Provisions

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

Warranties

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

(t) Revenue recognition

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

Sale of goods

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

(t) Revenue recognition continued

Interest revenue

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

Deferred warranty income

Deferred warranty income is accrued on a time basis, by reference to the period the contract relates to.

(u) Share-based payments

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

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

2. Revenue

Revenue from continuing operations consisted of the following items:

	Consolidated Group	
	2010 $'000	2009 $'000
Revenue from the sale of goods	47,405	58,298
Interest revenue:		
Bank deposits	15	12
	47,420	**58,310**

3. Finance costs

	Consolidated Group	
	2010 $'000	2009 $'000
Interest on bank overdrafts and loans	357	602
Interest on obligations under finance leases	13	14
Other interest expense	33	21
Attributable to continuing operations	**403**	**637**

4. Profit/(loss) for year

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

(a) Other income

	Consolidated Group	
	2010 $'000	2009 $'000
Gain/(loss) on disposal of property, plant and equipment	(17)	(4)
Research and Development Income	1,148	956
Other income	193	207
	1,324	**1,159**

(b) Other expenses

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

	Consolidated Group	
	2010 $'000	2009 $'000
Cost of goods sold	22,969	30,319
Net bad and doubtful debts arising from:		
Trade and other receivables	74	(210)
	74	**(210)**
Write-down of inventories to net realisable value	217	400
Write-off of obsolete stock	(33)	(229)
Depreciation of property, plant and equipment	876	948
Amortisation of intangible assets	1,518	909
	2,394	**1,857**
Impairment write-off of capitalised development expenditure	-	672
Impairment of goodwill	-	22,367
Total research and development costs (excluding employee costs less capitalised costs)	728	782
Operating lease rental expenses:		
Minimum lease payments	1,292	1,062
Employee benefit expense:		
Share based payments:		
Lapsed employee share options	-	(97)
Post employment benefits:		
Defined contribution plans	666	766
Termination payments	116	532
Other employee benefits	14,036	15,341
	14,818	**16,542**
Legal fees	64	179
Net realised foreign exchange losses	87	2,975

5. Income tax benefit

(a) Income tax recognised in profit or loss

	Consolidated Group	
	2010 $'000	2009 $'000
Tax expense comprises:		
Current tax expense/(benefit)	247	(854)
Deferred tax (benefit)/expense	(444)	240
Total tax benefit	**(197)**	**(614)**

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

Profit/(loss) from operations	**3,563**	**(23,229)**
Income tax expense/(benefit) calculated at 30%	1,069	(6,969)
Non-deductible expenses	21	25
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	83	24
Impairment losses on goodwill/investment that are not deductible	-	6,710
Previously unrecognised and unused tax losses now recognised as deferred tax assets	(1,046)	-
Other – Research and Develpment Tax Concession	(180)	(135)
Other	(142)	(535)
Under/(over) provision of income tax in previous year	(2)	266
Total income tax benefit	**(197)**	**(614)**

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

(b) Current tax assets and liabilities

	Consolidated Group	
	2010 $'000	2009 $'000
Current tax assets		
Prepaid taxes (US)	26	145
Tax refund (Australia)	-	214
Tax refund (Tax consolidated group)	-	124
	26	**483**

5. Income tax benefit continued

(c) Deferred tax balances

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

2010	Consolidated Group			
	1/07/09	Charged to Income	Foreign Exchange	30/06/10
Temporary differences				
PPE	111	(48)	-	63
Intangibles	3,728	(220)	-	3,508
Capitalised Research & Development	(1,535)	13	-	(1,522)
Fair value through profit or loss financial assets	117	(117)	-	-
Provisions	387	121	-	508
Doubtful Debts	47	(14)	-	33
Other financial liabilities	381	(247)	-	134
Temporary timing difference on unearned profits	674	(53)	-	621
Other	17	59	-	76
	3,927	**(506)**	**-**	**3,421**
Unused tax loses and credits				
Tax losses (Japan)	1,809	(137)	-	1,672
Tax losses (USA)	265	(60)	-	205
Tax losses (Australia)	-	38	-	38
Tax losses (Tax consolidated group)	1,207	930	-	2,137
	3,281	**771**	**-**	**4,052**
	7,208	**265**	**-**	**7,473**

5. Income tax benefit continued

(c) Deferred tax balances continued

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

2009	Consolidated Group			
	1/07/08	Charged to Income	Foreign Exchange	30/06/09
Deferred tax assets/(liabilities) arising from the following:				
Temporary differences				
PPE	137	(26)	-	111
Intangibles	3,979	(251)	-	3,728
Capitalised Research & Development	(1,768)	233	-	(1,535)
Fair value through profit or loss financial assets	(69)	186	-	117
Provisions	445	(58)	-	387
Doubtful Debts	28	19	-	47
Other financial liabilities	760	(379)	-	381
Temporary timing difference on unearned profits	737	(63)	-	674
Other	53	(36)	-	17
	4,302	**(375)**	**-**	**3,927**
Unused tax loses and credits				
Tax losses (Japan)	1,671	(240)	378	1,809
Tax losses (USA)	265	-	-	265
Tax losses (Tax consolidated group)	-	1,207	-	1,207
	1,936	**967**	**378**	**3,281**
	6,238	**592**	**378**	**7,208**

(d) Tax consolidation

Relevance of tax consolidation to the consolidated group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Ellex Medical Lasers Limited. The members of the tax-consolidated group are identified at note 28.

Nature of tax funding arrangements and tax sharing agreements

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

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

6. Share-based payments

The consolidated group has an ownership based compensation scheme for employees and executives (including executive directors). In accordance with the provisions of the scheme, as approved by shareholders at an annual general meeting, employees and executives are granted options to purchase parcels of ordinary shares at a price determined by the directors.

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

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date
Issued 30 September 2005 – 2	66,667	30/09/05	30/09/10	$0.40	$0.019
Issued 5 July 2006 – 1	66,666	05/07/06	30/09/10	$0.70	$0.119
Total	**133,333**				

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

There were no share options issued or granted during the financial year.

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

	2010		2009	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of the financial year	199,999	$0.47	3,899,999	$0.42
Granted during the financial year	-	-	-	-
Lapsed during the financial year	-	-	(3,700,000)	$0.45
Exercised during the financial year	-	-	-	-
Expired during the financial year	(66,666)	$0.30	-	-
Balance at end of the financial year	133,333	$0.55	199,999	$0.47
Exercisable at end of the financial year	133,333	$0.55	199,999	$0.47

There were no share options exercised during 2010 and 2009.

7. Remuneration of auditors

	Consolidated Group	
	2010 $'000	2009 $'000
Auditor of the parent entity		
Audit or review of the financial report		
Deloitte Touche Tohmatsu	134,340	170,334
Grant Thornton	90,000	-
	224,340	**170,334**

The auditor of Ellex Medical Lasers Limited is Grant Thornton Audit Pty Ltd (2009: Deloitte Touche Tohmatsu).

8. Trade and other receivables

	Consolidated Group	
	2010 $'000	2009 $'000
Current		
Trade receivables (i)	12,016	13,449
Allowance for doubtful debts	(120)	(274)
	11,896	**13,175**
Sundry deposits recoverable	941	830
Other receivables	141	196
Goods and services tax (GST) recoverable	39	57
	13,017	**14,258**
Non Current		
Sundry deposits recoverable	295	242
	295	**242**

(i) The average credit period on sales of goods is 93 days (2009: 84 days). The debtors balance that has been financed (note 16) is $2,985 thousand (2009: $3,692 thousand). After deducting this balance, the average credit period on sales of goods is 70 days (2009: 61 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before extending open credit terms to new distributors (Europe, Asia and Latin America), insurance coverage is gained for these distributors. Credit terms of 30-60 days (Japan: 90-180 days) are then extended to the customer up to the insured limit. Once the receivables balance passes 90 days, the customer is reported to the insurance Company and risk losing the coverage and open account trading terms. These limits are reviewed twice a year and if any particular concerns about payment are known, open accounts are closed, and prepayment or irrevocable letters of credit are required prior to shipment of sales orders. Additionally, insurance coverage is held for approximately 90% of Ellex Japan's receivable balance of $6.5 million (2009: $7.6 million).

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

	Consolidated Group	
	2010 $'000	2009 $'000
Ageing of past due but not impaired		
60 – 90 days	325	468
90 – 120 days	335	235
Total	**660**	**703**

8. Trade and other receivables continued

	Consolidated Group	
	2010 $'000	2009 $'000
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	274	92
Amounts written off as uncollectible	(80)	(28)
Amounts provided for during the year	-	210
Amounts reversed as previously over provided	(74)	-
Balance at the end of the year	**120**	**274**

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

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of $10 thousand (2009: $74 thousand) which have been placed under liquidation.

	Consolidated Group	
	2010 $'000	2009 $'000
Ageing of impaired trade receivables		
60 – 90 days	-	-
90 – 120 days	-	-
120+ days	10	74
Total	**10**	**74**

9. Inventories

	Consolidated Group	
	2010 $'000	2009 $'000
Raw materials – at cost	2,935	2,828
Raw materials – at net realisable value	69	76
Work in progress – at cost	1,303	1,441
Work in progress - at net realisable value	22	12
Finished goods – at cost	12,440	11,384
Finished goods – at net realisable value	330	142
	17,099	**15,883**

10. Other current assets

	Consolidated Group	
	2010 $'000	2009 $'000
Prepayments	848	899
	848	**899**

11. Property, plant and equipment

	Consolidated Group			
	Buildings $'000	Plant and equipment at cost $'000	Equipment under finance lease at cost $'000	Total $'000
Gross carrying amount				
Balance at 30 June 2008	124	6,695	383	7,202
Additions	7	596	41	644
Disposals	(10)	(158)	-	(168)
Net foreign currency exchange differences	-	242	-	242
Balance at 30 June 2009	**121**	**7,375**	**424**	**7,920**
Additions	-	232	76	308
Disposals	(36)	(49)	-	(85)
Net foreign currency exchange differences	-	(33)	-	(33)
Balance at 30 June 2010	**85**	**7,525**	**500**	**8,110**
Accumulated depreciation/amortisation and impairment				
Balance at 30 June 2008	**(25)**	**(3,297)**	**(119)**	**(3,441)**
Depreciation	(16)	(916)	(16)	(948)
Disposals	5	126	-	131
Net foreign currency exchange differences	-	(112)	-	(112)
Balance at 30 June 2009	**(36)**	**(4,199)**	**(135)**	**(4,370)**
Depreciation	(1)	(842)	(33)	(876)
Disposals	4	63	-	67
Net foreign currency exchange differences	-	64	-	64
Balance at 30 June 2010	**(33)**	**(4,914)**	**(168)**	**(5,115)**
Net book value				
As at 30 June 2009	**85**	**3,176**	**289**	**3,550**
As at 30 June 2010	**52**	**2,611**	**332**	**2,995**

	Consolidated Group	
	2010 $'000	2009 $'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
Leasehold improvements	1	16
Plant and equipment	842	916
Equipment under finance lease	33	16
	876	**948**

12. Other intangible assets

	Consolidated Group Patents & Trademarks $'000
Gross carrying amount	
Balance at 30 June 2008	**519**
Additions	182
Balance at 30 June 2009	**701**
Additions	144
Balance at 30 June 2010	**845**
Accumulated amortisation and impairment	
Balance at 30 June 2008	**(80)**
Amortisation expense	(12)
Balance as at 30 June 2009	**(92)**
Amortisation expense	(49)
Balance as at 30 June 2010	**(141)**
Net book value	
As at 30 June 2009	609
As at 30 June 2010	**704**

13. Capitalised development expenditure

	Consolidated Group Capitalised Development $'000
Gross carrying amount	
Balance at 30 June 2008	**8,034**
Impairment write-off	(1,940)
Additions	1,981
Balance at 30 June 2009	**8,075**
Additions	1,229
Balance at 30 June 2010	**9,304**
Accumulated amortisation and impairment	
Balance at 30 June 2008	**(1,521)**
Impairment write-off	484
Amortisation expense	(897)
Balance as at 30 June 2009	**(1,934)**
Amortisation expense	(1,469)
Balance as at 30 June 2010	**(3,403)**
Net book value	
As at 30 June 2009	6,141
As at 30 June 2010	**5,901**

An amount of $1,456 thousand was written off as impaired during the year ended 30 June 2009 due to discontinuing a product line previously recognised as capitalised development expenditure. The related deferred grant income (note 20) of $786 thousand has also been recognised in relation to this impairment.

14. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 16 to the financial statements, all non-current assets of the consolidated group (except capitalised development and deferred tax assets), have been pledged as security.

15. Current trade and other payables

	Consolidated Group	
	2010 $'000	2009 $'000
Trade payables (i)	2,927	3,141
Payable to previous owners of acquired businesses	-	900
Accruals	1,438	1,052
Payable to directors	137	127
Other payables	1,401	1,517
	5,903	6,737

(i) The average credit period on purchases of certain goods from the invoice date is 50 days (2009: 41 days), certain goods from the United States have terms of 60 days, and from Europe, 90 days. No interest is charged on the trade payables. The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

16. Borrowings

Secured – at amortised cost

	Consolidated Group	
	2010 $'000	2009 $'000
Current		
Bank overdrafts (note 31a) (ii)	3	31
Bank borrowings (i) (ii)	7,505	10,192
Finance lease liabilities (note 27) (i) (ii) (iii)	47	123
Other loans (unsecured)	259	140
	7,814	10,486
Non-Current		
Bank borrowings (i) (ii)	780	-
Finance lease liabilities (note 27) (i) (ii) (iii)	109	-
Other loans (unsecured)	765	-
	1,654	-

Summary of borrowing arrangements

(i) In 2009, all borrowings were current due to breach of loan agreement.

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

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

17. Other financial liabilities

	Consolidated Group	
	2010 $'000	2009 $'000
At fair value through profit or loss:		
Foreign currency forward contracts	-	389
	-	389

18. Provisions

	Consolidated Group	
	2010 $'000	2009 $'000
Current		
Employee benefits	1,497	1,134
Warranty (i)	444	406
	1,941	1,540
Non-Current		
Employee benefits	232	293
	2,173	1,833

	Consolidated Group
	Warranty (i)
Balance at 1 July 2008	220
Additional provisions recognised	586
Amounts used	(400)
Balance at 30 June 2009	**406**
Additional provisions recognised	591
Amounts used	(553)
Balance at 30 June 2010	**444**

(i) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the consolidated group's 2 year warranty program. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

19. Other current liabilities

	Consolidated Group	
	2010 $'000	2009 $'000
Deferred grant income	302	385
Deferred warranty income	301	238
	603	623

20. Other non-current liabilities

	Consolidated Group	
	2010 $'000	2009 $'000
Deferred grant income	184	786
Deferred warranty income	60	-
	244	786

21. Issued capital

	Consolidated Group	
	2010 $'000	2009 $'000
84,910,345 fully paid ordinary shares		
(2009: 84,910,345)	35,188	35,176
	35,188	35,176

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

	Company 2010		Company 2009	
	No '000	$'000	No '000	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	84,910	35,176	68,531	33,635
Issued Shares – capital raising (i)	-	-	16,379	1,638
Share issue (costs)/benefits	-	12	-	(97)
Balance at end of financial year	**84,910**	**35,188**	**84,910**	**35,176**

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

(i) On 6 January 2009 16,379,506 shares were issued pursuant to the non-renounceable rights issue dated 2 December 2008 of 1 share for every 2 shares held at an issue price of $0.10 per share.

Share options

Nil (2009: 66,666) unquoted employee options exercisable over ordinary shares at $0.30 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

66,667 (2009: 66,667) unquoted employee options exercisable over ordinary shares at $0.40 each and expiring 30 September 2010 were on issue and were not exercised at the end of the financial year.

66,666 (2009: 66,666) unquoted employee options exercisable over ordinary shares at $0.70 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

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

22. Reserves

	Consolidated Group	
	2010 $'000	2009 $'000
Share option reserve		
Balance at beginning of financial year	16	113
Lapsed – Employee Share Options	-	(97)
Balance at end of financial year	**16**	**16**

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

Foreign currency translation reserve		
Balance at beginning of financial year	847	(2,434)
Translation of foreign operations	(636)	3,281
Balance at end of financial year	**211**	**847**

Exchange differences relating to the translation from USA Dollars, Japanese Yen and the Euro, being the functional currencies of the consolidated group's foreign subsidiaries in the USA, Japan, France and Germany, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

Net reserves	**227**	**863**

23. Accumulated losses

	Consolidated Group	
	2010 $'000	2009 $'000
Balance at beginning of financial year	(6,199)	16,417
Net profit/(loss) attributable to members of the parent entity	3,820	(22,616)
Balance at end of financial year	**(2,379)**	**(6,199)**

24. Earnings per share

	Consolidated Group	
	2010 Cents per share	2009 Cents per share
Basic earnings per share:		
Total basic earnings per share	**4.5**	**(29.6)**
Diluted earnings per share:		
Total diluted earnings per share	**4.5**	**(29.6)**

Basic earnings per share

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

	Consolidated Group	
	2010 $'000	2009 $'000
Net profit/(loss)	3,820	(22,616)

	Consolidated Group	
	2010 No.	2009 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	84,910,345	76,428,902

Diluted earnings per share

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

	Consolidated Group	
	2010 $'000	2009 $'000
Net profit/(loss)	3,820	(22,616)

	Consolidated Group	
	2010 No.	2009 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	84,910,345	76,428,902
Shares deemed to be issued for no consideration in respect of:		
Employee options	-	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (i)	**84,910,345**	**76,428,902**

(i) The share options in note 6 are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

25. Dividends

	2010		2009	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary shares				
Final dividend – franked to 30%	**Nil**	**Nil**	**Nil**	**Nil**
Adjusted franking account balance			3,675	3,566

26. Commitments for expenditure

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 27 to the financial statements.

27. Leases

(a) 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 group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

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

	Minimum future lease payments		Present value of minimum future lease payments	
	Consolidated Group		Consolidated Group	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Finance lease liabilities				
Not longer than 1 year	64	140	47	123
Later than 1 year and not later than 5 years	109	-	109	-
Later than 5 years	-	-	-	-
Minimum future lease payments	**173**	**140**	**156**	**123**
Less future finance charges	(17)	(17)	-	-
Present value of minimum lease payments	**156**	**123**	**156**	**123**
Included in the financial statements as: (note 16)				
Current borrowings			47	123
Non-current borrowings			109	-
			156	**123**

27. Leases continued

(b) Operating leases

Leasing arrangements

Operating leases relate to business premises with lease terms of between 2 to 5 years. The business premises leases will be reviewed at the end of the lease term.

	Company	
	2010 $'000	2009 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	846	841
Longer than 1 year and not longer than 5 years	303	451
	1,149	1,292

28. Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %
Parent Entity			
Ellex Medical Lasers Limited (i) (ii)	Australia		
Subsidiaries			
Ellex Medical Pty Ltd (i)	Australia	100	100
Laserex Medical Pty Ltd (ii)	Australia	100	100
Ellex (USA) Inc	USA	100	100
Ellex (Japan) Corporation	Japan	100	100
Ellex R&D Pty Ltd (i) (ii)	Australia	100	100
Ellex Australia Pty Ltd	Australia	80	80
Ellex Services Europe SARL	France	100	100
Innovative Imaging, Inc	USA	100	100
Ellex Deutschland GmbH	Germany	100	100

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

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

The Statement of comprehensive income and Statement of financial position of the entities party to the deed of cross-guarantee are:

	Consolidated Group 2010 $'000	Consolidated Group 2009 $'000
Statement of comprehensive income		
Revenue	31,946	37,961
Other income	1,668	2,763
Loss on sale of property, plant and equipment	(17)	(4)
Raw materials and consumables used	(18,270)	(24,912)
Employee benefits expense	(6,992)	(7,914)
Depreciation and amortisation expense	(1,838)	(2,977)
Legal fees	(23)	(115)
Advertising and marketing	(753)	(1,100)
Finance costs	(370)	(632)
Product development	(469)	(579)
Mark-to-market unrealised foreign exchange (loss)/gain	-	(664)
Foreign currency translation movement	361	5,246
Impairment of goodwill	-	(16,239)
Other expenses	(2,003)	(3,899)
Profit/(Loss) before income tax	**3,240**	**(13,065)**
Income tax credit/(expense)	370	(903)
Profit/(Loss) for the year	**3,610**	**(13,968)**

28. Subsidiaries continued

Statement of financial position

	Consolidated Group	
	2010 $'000	2009 $'000
Current assets		
Cash assets	912	113
Trade and other receivables	10,229	6,553
Inventories	6,396	5,657
Current tax assets	-	1,343
Other	500	494
Total current assets	**18,037**	**14,160**
Non-current assets		
Trade and other receivables	17,615	20,563
Other financial assets	2,881	3,144
Property, plant and equipment	2,675	3,094
Deferred tax assets	4,829	3,239
Other intangible assets	695	600
Capitalised development expenditure	5,073	5,117
Total non-current assets	**33,768**	**35,757**
Total assets	**51,805**	**49,917**
Current liabilities		
Trade and other payables	5,133	4,721
Borrowings	4,654	6,765
Other financial liabilities	-	389
Provisions	1,300	990
Other	302	473
Total current liabilities	**11,389**	**13,338**
Non-current liabilities		
Borrowings	801	-
Provisions	232	293
Other liabilities	185	698
Total non-current liabilities	**1,218**	**991**
Total liabilities	**12,607**	**14,329**
Net assets	**39,198**	**35,588**
Equity		
Issued capital	35,190	35,190
Reserves	16	16
Retained earnings	3,992	382
	39,198	**35,588**

29. Segment information

Identification of reportable segments

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

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

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

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

Types of products and services by segment

Distributors

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

Direct

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Segment assets

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

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

Segment liabilities

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

Unallocated items

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

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

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been restated to conform to the requirements of the Standard.

29. Segment information continued

(a) Segment performance

	Distributors $'000	Direct $'000	Total $'000
Year ended 30 June 2010			
Revenue			
External sales	12,669	34,736	47,405
Interest revenue	13	2	15
Total segment revenue	**12,682**	**34,738**	**47,420**
Segment net profit before tax	**2,774**	**7,146**	**9,920**
Reconciliation of segment result to group net profit/(loss) before tax			
Amounts not included in segment result but reviewed by the Board:			
Depreciation and amortisation			(2,394)
Unallocated items:			
Corporate charges			(4,884)
Finance costs			(403)
Other income			1,324
Net profit before tax from continuing operations			**3,563**
Year ended 30 June 2009			
Revenue			
External sales	17,173	41,125	58,298
Interest revenue	7	5	12
Total segment revenue	**17,180**	**41,130**	**58,310**
Segment net profit before tax	**3,492**	**7,091**	**10,583**
Reconciliation of segment result to group net profit/(loss) before tax			
Amounts not included in segment result but reviewed by the Board:			
Depreciation and amortisation			(1,857)
Impairment of intangibles			(23,039)
Unallocated items:			
Corporate charges			(9,438)
Finance costs			(637)
Other income			1,159
Net loss before tax from continuing operations			**(23,229)**

29. Segment information continued

(b) Segment assets

	Distributors $'000	Direct $'000	Total $'000
30 June 2010			
Segment assets – opening	10,497	26,281	36,778
Segment asset increases for the period:			
Capital expenditure	384	260	644
Total segment assets	**10,881**	**26,541**	**37,422**
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			7,473
Capitalised development expenditure			5,901
Intangibles			704
Other			78
Total group assets			**51,578**
30 June 2009			
Segment assets – opening	9,831	26,121	35,952
Segment asset increases for the period:			
Capital expenditure	666	160	826
Total segment assets	**10,497**	**26,281**	**36,778**
Reconciliation of segment assets to group assets			
Unallocated assets:			
Deferred tax assets			7,208
Capitalised development expenditure			6,141
Intangibles			609
Others			169
Total group assets			**50,905**

29. Segment information continued

(c) Segment liabilities

	Distributors $'000	Direct $'000	Total $'000
30 June 2010			
Segment liabilities	3,706	14,685	18,391
Reconciliation of segment liabilities to group liabilities			
Unallocated liabilities:			
Other liabilities			-
Total liabilities			**18,391**
30 June 2009			
Segment liabilities	4,560	15,319	19,879
Reconciliation of segment liabilities to group liabilities			
Unallocated liabilities:			
Other liabilities			975
Total liabilities			**20,854**

(d) Revenue by geographical region

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

	12 Months 30 June 2010 $'000	12 Months 30 June 2009 $'000
Australia	5,670	6,474
United States of America	10,791	13,374
Europe	10,804	14,416
Japan	16,259	19,353
Asia	2,409	1,956
Other	1,472	2,725
Total revenue	**47,405**	**58,298**

29. Segment information continued

(e) Assets by geographical region

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

	Balances as at 30 June 2010 $'000	Balances as at 30 June 2009 $'000
Australia	26,876	25,922
United States of America	6,803	7,235
Europe	1,216	533
Japan	16,683	17,215
Asia	-	-
Other	-	-
Total Assets	**51,578**	**50,905**

(f) Major customers

The Group has a number of customers to which it provides both products and services. The Group supplies one single external customer in the Direct segment which accounts for 6.2% of external revenue (2009: 3.2%). The Group supplies one single external customer in the distributor segment which accounts for 16.1% of external revenue (2009: 13.2%)

30. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

(b) Transactions with key management personnel

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

(c) Key management personnel compensation

Refer to Remuneration Report contained in the Directors' Report for the details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

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

	Consolidated Group	
	2010 $'000	2009 $'000
Short-term employee benefits	711,555	2,213,559
Post-employment benefits	62,916	159,588
Termination benefits	-	174,826
	774,471	**2,547,973**

30. Related party disclosures continued

(d) Key management personnel share holdings

Fully paid ordinary shares of Ellex Medical Lasers Limited

2010	Balance @ 1/7/08 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/09 No.	Balance held nominally No.
V Previn	9,316,031	-	-	-	9,316,031	9,316,031
A Sundich	6,300,000	-	-	-	6,300,000	5,300,000
J Marshall	50,000	-	-	-	50,000	-
G Canala	4,061,788	-	-	-	4,061,788	4,061,788
M Plunkett	50,000	-	-	54,000	104,000	-
S Luscombe	25,668	-	-	-	25,668	-
M Young	13,000	-	-	-	13,000	-
	19,816,487	**-**	**-**	**54,000**	**19,870,487**	**18,677,819**

Fully paid ordinary shares of Ellex Medical Lasers Limited

2009	Balance @ 1/7/08 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/09 No.	Balance held nominally No.
V Previn	3,566,034	-	-	5,749,997	9,316,031	9,316,031
A Sundich	3,460,000	-	-	2,840,000	6,300,000	5,300,000
J Marshall	50,000	-	-	-	50,000	-
G Canala	2,061,788	-	-	2,000,000	4,061,788	4,046,788
M Plunkett	50,000	-	-	-	50,000	-
C Warren (ii)	130,700	-	-	-	130,700	-
B Swaim (ii)	128,000	-	-	-	128,000	-
S Luscombe	1,300	-	-	24,368	25,668	-
Y Isoda (ii)	-	-	-	700,000	700,000	-
M Young	3,000	-	-	10,000	13,000	-
D Watton (ii)	20,000	-	-	-	20,000	-
J Edwards (ii)	-	-	-	40,000	40,000	-
M Greenwood (ii)	14,960	-	-	-	14,960	14,960
	9,485,782	**-**	**-**	**11,364,365**	**20,850,147**	**18,677,779**

Executive share options of Ellex Medical Lasers Limited

2010	Balance @ 1/7/09 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/09 No.	Balance held nominally No.
M Plunkett	133,333	-	-	(66,666)	66,667	-
	133,333	**-**	**-**	**(66,666)**	**66,667**	**-**

30. Related party disclosures continued

(d) Key management personnel share holdings continued

Executive share options of Ellex Medical Lasers Limited

2009	Balance @ 1/7/09 No.	Granted as compensa-tion No.	Options exercised No.	Net other change No.	Balance @ 30/6/09 No.	Balance held nominally No.
P Falzon (i)	2,200,000	-	-	(2,200,000)	-	-
K McGuinness (i)	666,667	-	-	(666,667)	-	-
H Pummer (i)	100,000	-	-	(100,000)	-	-
M Plunkett	133,333	-	-	-	133,333	-
D Watton (ii)	66,666	-	-	-	66,666	-
	3,166,666	**-**	**-**	**(2,966,667)**	**199,999**	**-**

(i) Options lapsed due to no longer being employed.

(ii) Not considered key management personnel in 2010.

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

30. Related party disclosures continued

(e) Related party non-controlling interest

The non-controlling interest of 20% in Ellex Australia Pty Ltd is beneficially owned by Simon Luscombe through the Luscombe Family Trust. All transactions between the Group and this related party have been done on an arms-length basis and are disclosed in the below note 30 (f).

(f) Transactions with other related parties

Other related parties include:

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

At 30 June 2010, the following balances arising from transactions with key management personnel of the Group remain outstanding by the Group:

- Amounts payable to (related to remuneration paid in arrears):
  - V Previn $112,909
  - A Sundich $6,250
  - J Marshall $5,632
  - G Canala $12,500

At 30 June 2009, the following balances arising from transactions with key management personnel of the Group remain outstanding by the Group:

- Amounts payable to (related to remuneration paid in arrears):
  - V Previn $97,409
  - A Sundich $6,250
  - J Marshall $4,105
  - G Canala $9,583
  - M Plunkett $10,000
- Amounts receivable from (related to advance on expenses):
  - S Luscombe $799

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

Transactions between Ellex Medical Lasers Limited and its related parties

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

- Loan receivables totalling $11,487 thousand (2009: $10,131 thousand) are receivable from subsidiaries.

Transactions between the Group and its related parties

During the financial year ended 30 June 2010, the following transactions occurred between the Group and its other related parties:

- Interest payments of $367 thousand (2009: $454 thousand) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 1.787% (2009: 4.535%). Interest is payable annually.
- Sales between the subsidiaries totalled $18,746 thousand (2009: $20,615 thousand) during the year. Payment terms are 60 days.
- Management fees were charged between subsidiaries of $1,171 thousand (2009: $1,561 thousand) during the year for management, accounting, marketing and communications support.

31. Cash flow information

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated Group	
	2010 $'000	2009 $'000
Cash and cash equivalents	3,220	1,632
Bank overdraft (note 16)	(3)	(31)
	3,217	**1,601**

(b) Financing facilities

Secured bank facilities with various maturity dates through to 31 October 2010 and which may be extended by mutual agreement:

	Consolidated Group	
	2010 $'000	2009 $'000
Flexible Options Finance (overdraft facility)		
Amount used (note 16)	4,523	5,031
Amount unused	1,577	2,369
	6,100	**7,400**
Commercial Bill line (acquisitions)		
Amount used (note 16)	700	1,500
Amount unused	-	-
	700	**1,500**
Invoice finance (Australia)		
Amount used (note 16)	-	-
Amount unused	1,500	1,500
	1,500	**1,500**
Equipment finance and finance advance (insurance premium)		
Amount used (note 16)	415	263
Amount unused	-	-
	415	**263**

31. Cash flow information continued

(b) Financing facilities continued

	Consolidated Group	
	2010 $'000	2009 $'000
Other facilities		
Amount used (note 16)	-	-
Amount unused	500	500
	500	**500**

Debtor finance (Japan)	Million JPY	Million JPY
Amount used (i)	227	284
Amount unused	123	66
	350	**350**

(i) At the reporting dates, these amounts outstanding totalled $2,985 thousand (2009: $3,692 thousand). The total debtors facility can only be drawn down against eligible debtors in accordance with the agreement.

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

	Consolidated Group	
	2010 $'000	2009 $'000
Profit/(loss) for the year	3,760	(22,615)
Depreciation and amortisation of non-current assets	2,394	1,857
Loss on disposal of property, plant and equipment	17	3
Impairment of capitalised development expenditure	-	672
Impairment of goodwill	-	22,367
Employee share options	-	(97)
Interest income received and receivable	(15)	(12)
Unrealised mark-to-market foreign exchange (loss)/gain	-	664
(Increase)/decrease in tax balances	192	(1,434)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	847	1,901
Current inventories	(1,216)	1,862
Other current assets	51	384
Increase/(decrease) in liabilities:		
Current payables	66	(935)
Other current & non current liabilities	(1,407)	(641)
Net cash from operating activities	**4,689**	**3,976**

32. Financial instruments

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

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

	Note	Consolidated Group	
		2010 $'000	2009 $'000
Financial assets			
Cash and cash equivalents	31(a)	3,220	1,632
Receivables	8	13,312	14,500
Total financial assets		**16,532**	**16,132**
Financial liabilities			
Trade and other payables	15	5,903	6,737
Borrowings	16	9,468	10,486
Other financial liabilities	17	-	389
Total financial liabilities		**15,371**	**17,612**

(a) Capital risk management

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

The consolidated group's overall strategy remains unchanged from 2009.

The capital structure of the consolidated group consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21, 22 and 23 respectively. The consolidated group operates globally, primarily through subsidiary companies established in the markets in which the consolidated group trades. None of the subsidiary companies are subject to externally imposed capital requirements.

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

32. Financial instruments continued

(a) Capital risk management continued

Gearing ratio

The audit committee reviews the capital structure on a semi-annually basis. The consolidated group monitors the gearing ratio to determine the proportion of net debt to equity and in 2009 the target was 20-30%. This target is dependent on the ability to raise funds through debt versus equity and has been broadened to 15-30% in 2010. The balance of the capital structure will be managed through the issue of new shares, issues or redemption of debt, the payment of dividends or through share buy-backs.

The gearing ratio at year end was as follows:

	Note	Consolidated Group	
		2010 $'000	2009 $'000
Financial Assets			
Debt (i)		9,468	10,486
Cash and cash equivalents	31(a)	(3,220)	(1,632)
Net debt		**6,248**	**8,854**
Equity (ii)		33,187	30,051
Net debt to equity ratio		18.8%	29.5%

(i) Debt is defined as long- and short-term borrowings, as detailed in note 16.

(ii) Equity includes all capital and reserves.

Externally imposed capital requirements

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

- Debt Service Cover to be maintained at not less than 1.15 times to be tested half-yearly, but measured on a half yearly basis for the first test and an annual basis for second test.
- Group Equity to be maintained at not less than 45%, to be tested half-yearly, but measured on a half-yearly basis for first test and an annual basis for second test.
- Utilisation of the Bank's debt facilities (excluding equipment finance and insurance premium funding) by Ellex Medical Pty Ltd at all times (measured half-yearly based on audited accounts) will be limited to the combined figure of 60% of total Ellex Group Debtors less than 60 days plus 60% of total Ellex Group Inventory holding.
- In any one financial year dividend declarations and distributions to shareholders are not to be made to the detriment of achieving Gearing or Debt service covenants and must not exceed 50% of Net Profit After for that year without the prior written consent of the Bank.

The requirements are monitored on a continual basis and form part of the regular management and Board reporting. For the year ended 30 June 2010 these covenants were all met.

For the year ended 30 June 2009, the previous covenants were breached, all debt was classified as current and the facilities extended to 31 October 2009 as detailed in Note 1 to the financial statements.

32. Financial instruments continued

(b) Financial risk management objectives

The consolidated group's Finance function has established a Treasury Committee which provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated group's policies approved by the Board of directors and audit committee, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the management on a continuous basis. During the financial year, the Board of directors minuted that all future foreign currency hedging is to cease until further notice.

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

(c) Categories of financial instruments

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

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

There were no loans and receivables designated as at 'fair value through profit or loss' in 2010 or 2009.

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

(e) Market risk

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

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

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

(f) Foreign currency risk management

The consolidated group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. A Treasury Committee exists to oversee the day-to-day operation of the policy.

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

- Price lists

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

- Sales and purchases in foreign currency

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

32. Financial instruments continued

(f) Foreign currency risk management continued

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

Objective

The objective of the consolidated group's foreign currency risk policy is to seek to minimise the volatility associated with foreign currency rates and deliver AUD cash flows with reasonable certainty. A budgeted exchange rate is used by the consolidated group to assist in hedging decisions.

Policy and processes

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

Natural Hedge

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

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

- Foreign Currency Deposit Accounts – to store surplus funds from time-to-time;
- Foreign Currency Loans – where working capital requirements are drawn from time-to-time and repaid with foreign currency receipts; and
- Foreign Currency Swap – involving simultaneous purchase and sale of foreign currency against Australian dollars (or vice versa) for short-term mismatches in timing.

Net Exposure

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

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

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

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

Hedging Framework

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

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

32. Financial instruments continued

(f) Foreign currency risk management continued

Product Policy

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

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

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

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

Reporting

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

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

Performance measurement

Performance shall be assessed in terms of compliance with policy.

Risk identification and quantification

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

Interim policy

Due to the uncertainty of future cash flows and volatility of exchange rates that has occurred as a result of the current period of global economic uncertainty, during February 2009, the directors introduced an interim policy of not entering into any foreign exchange hedging contracts until a reasonable level of certainty returns to the global economy. The Group's hedging policy prior to this time is outlined above and is expected to be reinstated at a future point in time.

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

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

	Liabilities		Assets	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
US dollars	499	683	3,068	2,365
Japanese Yen	4,335	5,042	6,340	8,414
Euro	519	605	1,429	1,260

32. Financial instruments continued

(f) Foreign currency risk management continued

Foreign currency sensitivity analysis

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

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

	Euro Impact Consolidated		USD Impact Consolidated		Japanese Yen Impact Consolidated	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Profit or loss	71	49	200	147	156	438

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

Forward foreign exchange contracts

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

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

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $nil thousand (2009: unrealised losses of $389 thousand).

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

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010 FC'000	2009 FC'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Sell USA Dollars								
Less than 3 months	-	0.8266	-	200	-	242	-	(5)
3 to 6 months	-	-	-	-	-	-	-	-
Longer than 6 months	-	-	-	-	-	-	-	-
	-	0.8266	-	200	-	242	-	(5)

32. Financial instruments continued

(f) Foreign currency risk management continued

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010 FC Mill	2009 FC Mill	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Sell Japanese Yen								
Less than 3 months	-	95.000	-	(30)	-	(316)	-	72
3 to 6 months	-	84.260	-	21	-	250	-	(24)
Longer than 6 months	-	83.260	-	21	-	250	-	(23)
	-	87.507	-	12	-	184	-	25

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010 FC '000	2009 FC '000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Sell Euro								
Less than 3 months	-	0.592	-	50	-	85	-	(3)
3 to 6 months	-	-	-	-	-	-	-	-
Longer than 6 months	-	-	-	-	-	-	-	-
	-	0.592	-	50	-	85	-	(3)

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

Collar options

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

Outstanding contracts	Put Average Strike Rate		Call Average Strike Rate		Contract value		Fair value	
	2010	2009	2010 $	2009 $	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Sell Japanese Yen								
Not longer than 1 year	-	91.667	-	79.800	-	2,749	-	(406)
Longer than 1 year	-	-	-	-	-	-	-	-
Total					-	2,749	-	(406)

32. Financial instruments continued

(g) Interest rate risk management

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

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

At reporting date, if interest rates had been 100 basis points (2009: 100 basis points) higher or lower and all other variables were held constant, the consolidated group's:

- Net profit after tax would increase by $30 thousand and decrease by $30 thousand (2009: increase by $34 thousand and decrease by $34 thousand). This is attributable to the consolidated group's exposure to interest rates on its variable rate borrowings.

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

(h) Credit risk management

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

Trade accounts receivable consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, debtors insurance cover is purchased.

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

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

(i) Fair value of financial instruments

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

(j) Liquidity risk management

The consolidated group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 31(b) is a listing of undrawn facilities that the consolidated group has at its disposal to further reduce liquidity risk.

32. Financial instruments continued

(k) Maturity profile of financial instruments

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

	Interest rate maturity						
2010	Average Interest Rate $'000	Less than 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Financial Liabilities							
Overdraft	10.86%	3	-	-	-	-	3
Commercial Bills	6.55%	110	2,920	1,490	780	-	5,300
Finance Lease	5.69%	7	13	44	109	-	173
Finance Advance	3.61%	25	50	50	-	-	125
Trade payables	-	-	2,885	-	-	-	2,885
Payable to directors	-	137	-	-	-	-	137
Debtor Finance Facility	2.50%	941	1,809	235	-	-	2,985
		1,223	**7,677**	**1,819**	**889**	**-**	**11,608**

	Interest rate maturity						
2009	Average Interest Rate $'000	Less than 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Financial Liabilities							
Overdraft	9.41%	31	-	-	-	-	31
Commercial Bills	4.71%	-	5,200	600	700	-	6,500
Finance Lease	8.23%	5	10	32	93	-	140
Finance Advance	3.61%	21	42	83	-	-	146
Forward Exchange Contracts (receivable)		-	11	(453)	-	-	(442)
Forward Exchange Contracts (payable)		-	(75)	500	-	-	425
Trade payables		-	3,141	-	-	-	3,141
Payable to directors		127	-	-	-	-	127
Debtor Finance Facility	3.00%	918	2,475	299	-	-	3,692
		1,102	**10,804**	**1,061**	**793**	**-**	**13,760**

As noted in note 16 the consolidated group breached their loan covenants, hence all borrowings have been classified as current. Whilst these borrowings are classified as current the above maturity table has been prepared using the original contracted maturity cash flows.

33. Parent entity information

	Parent Entity	
	2010 $'000	2009 $'000
Statement of financial position		
Total current assets	5	129
Total non current assets (i)	23,940	23,816
Total assets	**23,945**	**23,945**
Total current liabilities	-	-
Total non current liabilities	-	-
Total liabilities	**-**	**-**
Share capital	35,176	35,176
Accumulated losses	(11,231)	(11,231)
Total equity	**23,945**	**23,945**
Statement of comprehensive income		
Profit for the year (i)	-	(12,006)
Total comprehensive income	**-**	**(12,006)**

(i) Includes 2009: $12,000 thousand of impairment losses relating to the value of our investments in and amounts owed by our controlled entities. The impairment losses have been eliminated on consolidation of the Ellex Group.

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

- Under our tax funding arrangements, amounts receivable (or payable) recognised by the Ellex Group for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non current assets above, are recorded at cost less impairment of the investment value. Refer to note 28 for details on our investments in controlled entities.

(a) Property, plant and equipment commitments

There are no contractual commitments for the acquisition of property, plant or equipment as at 30 June 2010 (2009: Nil).

(b) Contingent liabilities and guarantees

There are no contingent liabilities as at 30 June 2010 (2009: Nil).

(c) Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support, through the Ellex entity as follows:

- Security over overseas subsidiaries assets as completed was completed by Westpac to the value of $24,702 thousand (2009: $24,983 thousand).

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

Report on the financial report

We have audited the accompanying financial report of Ellex Medical Lasers Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Grant Thornton

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

Independence

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

Auditor's opinion

In our opinion,:

a the financial report of Ellex Medical Lasers Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of it's performance for the year ended on that date; and

  ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the Remuneration Report included in pages 14 to 20 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of Ellex Medical Lasers Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance

Signed at Wayville on this 26th day of August 2010

Additional Stock Exchange Information as at 20 September 2010

Number of holders of equity securities

Ordinary share capital

- 84,910,345 fully paid ordinary shares are held by 3,248 individual shareholders.

All issued shares carry one vote per share.

Options

133,333 Employee options are held by 2 individual option holders. All options are subject to vesting rules based on meeting revenue and profit growth targets and expire 30 August 2010.

Options do not carry a right to vote.

Distribution of holders of equity securities

	Ordinary Shares	Employee Options
1 - 1,000	1,186	-
1,001 - 5,000	753	-
5,001 - 10,000	427	-
10,001 - 100,000	773	2
100,001 and over	99	-
	3,238	**2**
Holding less than a marketable parcel	1,433	-

Substantial shareholders

Ordinary shareholders	Fully Paid	
	Number	Percentage
Sedico Pty Ltd	9,316,031	10.97%
Alexander Sundich and Gabrielle Upton(i)	6,300,000	7.42%

(i) Securities are registered in the names of Invia Custodian Pty Ltd, Pine Street Pty Ltd and Mr Alex Sundich + Mrs Gabrielle Upton.

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully Paid	
	Number	Percentage
Sedico Pty Ltd	9,316,031	10.97%
Mr Giuseppe Canala + Mrs Mira Canala <Giuseppe Canala S/F a/c>	3,621,928	4.27%
Intertec Healthcare Management LLC <Intertec H Care Prtns Lp a/c>	2,750,000	3.24%
Invia Custodian Pty Limited <Pine Street Super Fund a/c>	2,700,000	3.18%
Pine Street Pty Ltd <Pine Street a/c>	2,600,000	3.06%
Ruminator Pty Ltd	1,644,227	1.94%
J P Morgan Nominees Australia Limited	1,555,391	1.83%
ANZ Nominees Limited <Cash Income a/c>	1,331,095	1.57%
Mr Rahmon Charles Coupe + Mrs Julia Deborah Coupe <Super Fund a/c>	1,303,000	1.53%
Unley Underwriters Pty Limited	1,107,424	1.30%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan <Buchanan Super Fund a/c>	1,025,000	1.21%
Mr Alex Sundich + Mrs Gabdrielle Upton	1,000,000	1.18%
Lamed Medizin Und Laboranlagenbau GmbH	1,000,000	1.18%
Ms Choi Chu Lee	973,000	1.15%
Forbar Custodians Limited <Forsyth Barr Ltd-Nominee a/c>	890,996	1.05%
Bell Potter Nominees Ltd <BB Nominees a/c>	875,943	1.03%
Mr Stephen Luke Pronk + Mrs Joanne Dawn Pronk <Analytical Instru Super a/c>	815,594	0.96%
Five Talents Limited	781,000	0.92%
HSBC Custody Nominees (Australia) Limited	720,481	0.85%
Mr Yukitaka Isoda	700,000	0.82%
	36,711,110	**43.24%**

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

Corporate Directory

Directors

Victor Previn BE
(Executive Chairman)

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

John Marshall Professor
(Non-Executive Director)

Malcolm Plunkett
(Executive Director)

Giuseppe Canala BTECH, BA, FAICD
(Non-Executive Director)

Company Secretary

Giuseppe Canala BTECH, BA, FAICD

Registered Office

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Enquiries outside Australia +61 3 9415 4000

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www.computershare.com

Website

www.ellex.com

Stock Exchange

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

ASX Code

ELX – Ordinary Shares