

Annual Report 2012

Ellex Medical Lasers Limited
ACN 007 702 927



The 2012 financial year was a year of progress and accomplishment for Ellex. The consolidation of manufacturing and manufacturing-related activities in Adelaide, combined with improved sales performance in the USA and Australia, delivered a positive operating result.

The 2012 financial year was a year of progress and accomplishment for Ellex on many fronts.

Whilst the strong Australian dollar continued to pose challenges for our business, a number of initiatives implemented during the year helped to offset this negative impact. Specifically, the consolidation of manufacturing and manufacturing-related activities in Adelaide, combined with improved sales performance in the Company's direct markets of the USA and Australia, delivered a positive operating result.

From a fiscal standpoint, the Ellex business returned to profitability. Profit before tax was \$1 million, compared to a \$1.1 million loss in the previous year. Group revenues also grew to \$47.5 million during the period, a 10% increase on the prior year.

In sales, our solid performance during the 2012 financial year was principally the result of a number of sales-based initiatives implemented in the USA, which led to our USA subsidiary's strongest sales result since its inception in 1995. Improved sales performance in Australia and a number of emerging markets also helped to bolster overall sales results.

In Greater Europe and the Middle East sales remained steady, which was a solid result given the economic uncertainty that still exists in these regions. Sales to the Company's traditional markets of France, Italy and Spain fell during the period, but were offset by a marked improvement in the sales performance of the emerging economies of Russia, Turkey, Kazakhstan and northern African countries.

On a negative note, sales in Japan and Asia fell compared with the prior comparable period. In Japan, a decrease in healthcare expenditure by the Japanese government due to tsunami reconstruction efforts resulted in a reduction in sales of Ellex products. Previously, the Japanese business has delivered a strong result during the January-to-June period. Despite this, we expect the performance of our Japanese business to improve as the economy returns to more normal trading conditions.

The Company's growing third-party distribution business also contributed positively to sales performance during the 2012 financial year, with the DRS™ retinal camera achieving improved sales in key markets.

During the period the Company also undertook a number of activities to leverage its existing manufacturing and regulatory resources in order to identify new, additional revenue streams. These included the establishment of a biomedical service support function, Ellex Biomedical Services.

In terms of working capital management, a concerted effort to reduce inventory and to improve accounts receivable collection improved cash flow. The cash released from these activities during the period was also used to improve the terms of trade with our suppliers. This, in turn, will provide the opportunity for further inventory reduction over the coming year.

Debt repayment terms with the Company's lender, Westpac, were also renegotiated, including the re-classification of \$2.6 million (of the total \$7.8 million) of debt as non-current. Previously, this had been classified as current in 2011.

From an operational standpoint, the consolidation of (Eye Cubed™) ultrasound manufacturing from Sacramento, California, to our state-of-the art manufacturing facility in Adelaide, Australia, was an important initiative during the period, helping to facilitate a material improvement in operating performance. Design engineering and production of the Eye Cubed™ ultrasound system is now centralised in Adelaide, providing improved operational efficiencies and greater speed-to-market for our product development pipeline.

Research and development (R&D) remained a key priority for our business during the 2012 financial year, with approximately \$1.7 million allocated to R&D activities. Whilst this was a slight reduction in R&D expenditure compared to the prior comparable period, continued investment in our technology and product development pipeline is expected to result in the market introduction of product enhancements and new products over the first half of the 2013 financial year.

Future growth opportunities for the Ellex business are also promising, with the clinical and commercial development program for Retinal Rejuvenation Therapy (2RT™) gaining momentum during the period. In July 2012 Ellex received a CE Mark for 2RT™ in the treatment of diabetic eye disease (Diabetic Macular Edema, DME). This was a significant milestone, enabling Ellex to commence a limited commercial release of 2RT™. Over the coming financial year we expect to secure a number of commercial sales in all major markets. Most importantly, however, the sale of these commercial systems will enable us to solicit market feedback on the 2RT™ product concept and clinical approach. The next milestone will be regulatory approval for 2RT™ in the treatment of Early Age-Related Macular Degeneration (AMD) – the leading cause of blindness in the developed world which is hitherto untreated by any other means.

On behalf of the Board, I would like to thank our CEO, Mr. Tom Spurling, and the Ellex Management Team for their dedication and commitment, which resulted in this very credible result for the 2012 financial year.

The work undertaken during 2012 to improve the financial standing of the Company, to develop and release new products and to initiate new revenue streams from biomedical equipment service and contract manufacturing is expected to result in revenue and profit growth in 2013.



Victor Previn
Chairman

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This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, including 2011 Amendments 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. To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. These responsibilities include:

- Setting the strategy for the Group, including operational and financial objectives and ensuring that there are sufficient resources for this strategy to be achieved.
- Appointing and, where appropriate, removing the Chief Executive Officer ('CEO'), approving other key executive appointments and planning for executive succession.
- Overseeing and evaluating the performance of the CEO and the executive team through a formal performance appraisal process having regard to the Group's business strategies and objectives.
- Monitoring compliance with legal, regulatory and occupational health and safety requirements and standards.
- Overseeing the identification of key risks faced by the Group and the implementation of an appropriate internal control framework to ensure those risks are managed to an acceptable level.
- Approving the Group's budgets, including operational and capital budgets, and the approval of significant acquisitions, expenditures or divestitures.
- Approval of annual and half-yearly financial reports.
- Ensuring the market and shareholders are fully informed of material developments.

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 (12) 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 8 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 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 28 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

The Company has a Share Trading Policy which governs the trading in the Company's shares and applies to all Directors and employees of the Company. A copy of this policy is available on www.ellex.com.

Directors, senior management and employees 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 advise the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Company. Directors must advise the ASX of any transactions conducted by them in shares in the Company.

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.

Insurance

The Group has in place a Directors and Officers liability insurance policy providing a specified level of cover for current and former Directors and executive Officers of the Group against liabilities incurred whilst acting in their respective capacity.

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

Given the size and structure of the Company's Board, the directors have formed the view that it is appropriate that a majority of the members of the remuneration committee not be independent directors. The Remuneration Committee abides by a formal charter.

Corporate Governance Statement

The Committee meets as required and met twice 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 A Sundich – Non-Executive Director (Chairman of Audit Committee)
- Mr V Previn – Executive Director
- Mr Giuseppe Canala - Non-Executive Director

The external auditors, the Chief Executive Officer and the Group Financial Controller 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 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 the Group Financial Controller ensure compliance with financial controls and procedures including information systems controls detailed in procedure 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, 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 30 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 Group Financial Controller 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 Group Financial Controller 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.

Monthly actual results are reported against budget, for the Board to approve with detailed analysis of variances against budget.

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.

Corporate Governance Statement

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 and 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.

Diversity

Recommendation 3.2 of the ASX Corporate Governance Council's "Corporate Government Principles and Recommendations" provides that companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. Ellex does not currently comply with this recommendation.

The Board has resolved that given the Company's size and the nature of its operations, it is not practicable to adopt and implement a formal policy that might constrain the Company's ability to recruit solely on the basis of merit.

The Company is the only publicly listed ophthalmic laser manufacturer in Australia, and one of only a dozen such manufacturers worldwide. Recruiting qualified and experienced staff is, and has been, a significant challenge during the Company's 25 year history. With an extremely limited pool of appropriate candidates for many roles throughout the organisation, the Company considers that it would be detrimental to shareholder interests to recruit on any basis other than merit.

As an international employer across four continents, the Company's consistent practice is to hire and promote the best available person for any given role, irrespective of gender, age, ethnicity or cultural background. The Company is an equal opportunity employer and this is reflected in the current diversity of its workforce.

As the Company grows and diversifies, the Board will continue to consider whether it is appropriate to implement a formal Diversity Policy.

Recommendation 3.3 of the Principles provides that companies should disclose in each annual report the measurable objectives of achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. As a result of the Board's decision not to adopt and implement a Diversity Policy at this time, Ellex does not currently comply with this recommendation. The Company re-iterates the matters set out above in respect of Recommendation 3.2.

Recommendation 3.4 of the Principles requires ASX listed entities to disclose in the Annual Report the proportion of women in the whole organisation, in senior executive positions and on the Board. Below is Ellex's current gender profile.

	Total	Production	Others	Middle Management	Senior Management	Board
All Staff	184	42	113	10	15	4
Female Staff	42	8	26	4	4	0
% of total	23%	19%	23%	40%	27%	0%

Portion of Female Employees of Ellex Medical Lasers Limited as at 30 June 2012.

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.

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2012. 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

Victor Previn is 54 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor Previn is a professional engineer and one of the original founders of Ellex. His career spans more than 30 years in the laser industry. Mr. Previn was responsible for developing and commercializing the technology platform that is now the core of Ellex's current production. He has spent more than 26 years in the ophthalmic laser industry travelling widely throughout Asia, Europe and the USA in a business development capacity.

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

Alex Sundich

Alex Sundich is 48 years old and was appointed a non-executive director on 22 July 2005. Alex is currently an executive director of Harvest Capital Partners, a corporate advisory 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 and acquisitions and capital raisings. Alex is currently a non-executive director of Petrel Energy Limited and an executive director of Burleson Energy Limited. He is also Chairman of the Audit Committee and the Remuneration Committee.

John Marshall

Professor John Marshall is 68 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, 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 was Chairman of Ellex's Medical Advisory Board and has over 40 years of ophthalmology experience. Professor Marshall also held the original patent on excimer laser refractive surgery.

Professor Marshall resigned from the Board of Directors on 23 September 2011.

Malcolm Plunkett

Malcolm Plunkett is 58 years old and 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

Giuseppe Canala is 65 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 Manager and Managing Director. He was the Chairman from 1990 to 2001. He is currently a member of the Audit and Remuneration Committees.

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

An operating profit before tax of \$1.1 million was recorded for the year ended 30 June 2012. This is a substantial improvement over the loss of \$1.1 million reported for the year ended 30 June 2011. Group revenue increased by \$4.4 million to \$47.5 million compared with the prior corresponding period.

The 10% increase in revenue was achieved despite the continued appreciation of the Australian dollar against the YEN, Euro and US dollar. It is estimated that the increase in revenues was achieved despite a negative influence from the exchange rate in the order of \$1.5 million.

The stronger revenue performance was achieved in our Australian and USA markets. In Australia, the introduction of the CenterVue-manufactured Digital Retinal Camera increased sales and in the USA strong sales of Ellex's world-leading Eye Cubed™ ultrasound provided a good increase. The strong performance in Australian and USA was offset by a reduction in sales in Japan, where post-tsunami recovery expenditure impacted government hospital spending. In Europe, distributor sales were stable year on year, despite the economic uncertainty in that region. Improved sales were achieved in non-traditional markets; Sweden, Turkey, Russia and Kazakhstan. Market penetration in Europe is expected to improve during the coming year with the establishment of a direct sales business in France and the relocation of the office from Clermont-Ferrand, in country France, to Lyon, France's second largest city.

Sales into Asia and Latin America were substantially the same as the prior year.

Cost savings and operating efficiencies were achieved during October 2011 as a result of the transfer of Eye Cubed™ manufacturing from Sacramento, California to Adelaide, Australia. All Ellex production is now conducted in Adelaide. The additional capability in Adelaide for medical device production is expected to open up opportunities for contract manufacturing for third parties during the coming year.

Work on purchasing procedures, demonstration inventory arrangements and information systems yielded a reduction in inventory of \$1.7 million compared with 30 June 2011. Trade receivables also decreased due to specific initiatives to improve collections. The reductions in inventory and receivables were achieved despite the increased group sales.

With respect to Group debt, during the period there were two substantially offsetting events; scheduled payments to the Company's borrowings reduced debt by \$1.6 million, while \$1 million was drawn down under YEN denominated special low-interest loan arrangements made available by the Japanese Government during 2011 to help companies recover from the interruption to business caused by the March 2011 tsunami. The net effect of these events will be lower interest cost in the future.

The terms of the loan agreement with the Company's bankers were renegotiated during the year and as a result \$2.6 million of debt facilities are classified as non-current liabilities as of 30 June 2012. At 30 June 2011 these debt facilities were current liabilities.

A total of \$1.3 million was spent on product development during the year ended 30 June 2012. This was substantially the same as the expenditure in the prior corresponding period. New product releases are planned. In July 2012, the Company announced that it had successfully obtained a CE Mark for its 2RT Retinal Rejuvenation product for treatment of diabetic macular oedema. This milestone allows for the commencement of 2RT sales during the coming year.

Financial position

As at 30 June 2012, the net assets of the consolidated group increased by \$1.7 million from 30 June 2011 to \$32 million. The positive result is largely due to the operating performance of the business after adjustment for foreign currency asset translation.

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

Environmental regulations

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

Significant changes in state of affairs

On 29 February 2012, the Company acquired 20% of the share capital of Ellex Australia Pty Ltd that it did not own.

There was no other 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.

Future developments

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

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 2012 (30 June 2011: Nil).

Share options

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

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

Indemnification of officers and auditors

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

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

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

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 two Remuneration Committee meetings were held.

Directors	Board of directors		Audit committee		Remuneration committee	
	Held*	Attended	Held*	Attended	Held*	Attended
V Previn	12	12	3	3	2	2
A Sundich	12	12	3	3	2	2
J Marshall	2	2	N/A	N/A	N/A	N/A
G Canala	12	12	3	3	2	2
M Plunkett	12	12	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	-	-	6,300,000	-
M Plunkett	104,000	-	-	-
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 2012. 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 - ceased 23 September 2011
- Giuseppe Canala – Non-executive Director / Company Secretary
- Malcolm Plunkett – Executive Director

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

- Tom Spurling – Chief Executive 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.

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. Non-executive directors' base fees are presently \$30,000 per annum.

The Chairman receives the base fee plus \$10,000 per annum, and an additional salary in his capacity as an executive. Director's fees cover all main Board functions but exclude membership of the Audit Committee. A fee of \$5,000 per annum is payable for membership of the Audit Committee. The Company Secretary receives an additional salary in addition to his capacity as a director of \$25,000 per annum. 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 linked to the improvement in the market value of the Company. The long term incentive is intended to reward efforts and results that promote long term growth in shareholder value.

The 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.

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 13.

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

The tables below set out summary information about the consolidated group's earnings and movements in shareholder wealth for the five years to June 2012.

	30 June 2012 \$'000	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2009 \$'000	30 June 2008 \$'000
Revenue (i)	47,504	43,135	47,420	58,310	50,367
EBITDA	3,149	1,114	6,360	(20,735)	3,912
Net profit/(loss) before tax	1,067	(1,087)	3,563	(23,229)	1,858
Net profit/(loss) after tax	1,050	(700)	3,760	(22,615)	4,834

(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 2012	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Share price at start of year	0.180	0.150	0.130	0.295	0.830
Share price at end of year	0.115	0.180	0.150	0.130	0.295
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	1.2 cps	(0.8) cps	4.5 cps	(29.6) cps	6.93 cps
Diluted earnings per share	1.2 cps	(0.8) cps	4.5 cps	(29.6) cps	6.84 cps

Key terms of employment contracts

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

Tom Spurling – Chief Executive Officer

- Total remuneration package of \$297,181 inclusive of superannuation to be reviewed annually.
- Employer or employee may terminate employment on giving of 90 days' notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice. The termination benefit may be reduced by any amounts due to the Company under the long-term incentive arrangement.
- A short-term incentive payable at time of annual review, incentive will be at the discretion of the Board and based on overall performance of previous financial year. Range of incentive is \$25,000 to \$50,000.
- A long-term incentive in the form of 140,000 shares for which an interest-free loan of \$29,112 was provided. The principle amount of this loan is only repayable from proceeds of the sale.

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.

At Ellex's last AGM on 24 November 2011, Resolution 3 dealing with the Remuneration Report was not adopted. The Board of Directors is considering an action plan to address the failure to adopt the Remuneration Report of 2011.

Directors' Report

2012	Short-term employee benefits			Post employment benefits		Share based payments - Options \$	Other long-term benefits	Total
	Salary and fees	Bonus	Non-monetary benefits	Pension and super-annuation	Other			
	\$	\$	\$	\$	\$			
Directors								
V Previn	58,750	-	8,533	5,287	-	-	-	72,570
J Marshall	14,325	-	-	-	-	-	-	14,325
G Canala	10,000	-	-	55,400	-	-	-	65,400
M Plunkett	104,386	-	-	52,587	-	-	-	156,973
A Sundich	35,000	-	-	3,150	-	-	-	38,150
Executives								
T Spurling (i)	252,294	-	-	15,775	-	29,112	-	297,181
Total	474,755	-	8,533	132,199	-	29,112	-	644,599

2011	Short-term employee benefits			Post employment benefits		Share based payments - Options \$	Other long-term benefits	Total
	Salary and fees	Bonus	Non-monetary benefits	Pension and super-annuation	Other			
	\$	\$	\$	\$	\$			
Directors								
V Previn	100,000	-	-	9,000	-	-	-	109,000
J Marshall	15,000	-	-	-	-	-	-	15,000
G Canala	55,000	-	-	4,950	-	-	-	59,950
M Plunkett	98,244	-	29,929	11,535	-	-	-	139,708
A Sundich	30,000	-	-	2,700	-	-	-	32,700
Executives								
T Spurling (i)	65,504	-	-	2,183	-	-	-	67,687
S Luscombe	238,295	8,104	15,049	17,755	-	-	-	279,203
M Young	108,923	-	24,363	9,803	-	-	-	143,089
Total	710,966	8,104	69,341	57,926	-	-	-	846,337

Bonuses granted as compensation and additional comments – 2012 and 2011

(i) T Spurling (commenced 1 April 2011)

Interest-free loan to purchase shares, refer to the previous page where this has been disclosed.

Name	Fixed remuneration		Performance based remuneration				At risk	
			Bonus		LTI			
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
V Previn	100	100	-	-	-	-	-	-
J Marshall	100	100	-	-	-	-	-	-
G Canala	100	100	-	-	-	-	-	-
M Plunkett	100	100	-	-	-	-	-	-
A Sundich	100	100	-	-	-	-	-	-
T Spurling	90	100	-	-	10	-	10	-
S Luscombe	N/A	97	N/A	3	N/A	-	N/A	3
M Young	N/A	100	N/A	-	N/A	-	N/A	-

Value of options issued to directors and executives

No options were granted or exercised during the year ended 30 June 2012.

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 32 to the financial statements.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2012 is included on page 16 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, 30 August 2012

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.granthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Ellex Medical Lasers Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S J Gray
Director – Audit & Assurance

Adelaide, 30 August 2012

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Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2012

	Note	Consolidated Group	
		2012 \$'000	2011 \$'000
Revenue from ordinary activities	2	47,504	43,135
Other income	4(a)	337	378
Changes in inventories of finished goods and work in progress		(875)	99
Raw materials and consumables used		(23,725)	(22,051)
Employee benefits expense		(13,693)	(13,752)
Legal fees	4(b)	(16)	(58)
Depreciation and amortisation expense	4(b)	(1,683)	(1,768)
Advertising and marketing		(1,102)	(1,404)
Finance costs	3	(399)	(433)
Product development expenses		(276)	(162)
Sacramento closure costs	4(b)	-	(303)
Realised FX loss gain/(loss)	4(b)	155	(394)
Other expenses from ordinary activities		(5,160)	(4,374)
Profit/(loss) from ordinary activities before income tax	4	1,067	(1,087)
Income tax (expense)/benefit relating to ordinary activities	5	(17)	387
Profit/(loss) for the year		1,050	(700)
Other comprehensive income			
Exchange differences on translating foreign operations		786	(2,149)
Total comprehensive income for the year		1,836	(2,849)
Profit/(loss) attributable to:			
Members of the parent		920	(661)
Non-controlling interest		130	(39)
		1,050	(700)
Total comprehensive income attributable to:			
Members of the parent		1,706	(2,810)
Non-controlling interest		130	(39)
		1,836	(2,849)
Earnings per share:			
Basic earnings per share (cents)	22	1.2	(0.8)
Diluted earnings per share (cents)	22	1.2	(0.8)

Notes to the financial statements are included on pages 21 to 69.

Consolidated Statement of Financial Position as at 30 June 2012

	Note	Consolidated Group	
		2012 \$'000	2011 \$'000
Current assets			
Cash and cash equivalents	29	1,849	1,744
Trade and other receivables	7	9,362	10,662
Current inventories	8	12,200	13,285
Current tax assets	5(b)	8	23
Other current assets	9	973	812
Total current assets		24,392	26,526
Non-current assets			
Trade and other receivables	7	234	302
Non-current inventories	8	2,670	3,284
Property, plant and equipment	10	2,351	2,668
Capitalised development expenditure	12	6,602	6,281
Other intangible assets	11	791	739
Deferred tax assets	5(c)	7,892	7,861
Total non-current assets		20,540	21,135
Total assets		44,932	47,661
Current liabilities			
Trade and other payables	14	2,457	6,114
Borrowings	15	3,752	7,400
Provisions	16	1,961	2,007
Deferred income	17	404	474
Total current liabilities		8,574	15,995
Non-current liabilities			
Borrowings	15	4,103	1,076
Deferred income	18	32	78
Provisions	16	165	190
Total non-current liabilities		4,300	1,344
Total liabilities		12,874	17,339
Net assets		32,058	30,322
Equity			
Issued capital	19	35,188	35,188
Reserves	20	(1,010)	(1,938)
Accumulated losses	21	(2,120)	(3,040)
		32,058	30,210
Parent entity interest		32,058	30,210
Non-controlling interest		-	112
Total equity		32,058	30,322

Notes to the financial statements are included on pages 21 to 69.

Consolidated Statement of Changes in Equity for the financial year ended 30 June 2012

	Issued Capital \$'000	Other Reserves \$'000	Share Option Reserve \$'000	Foreign Currency Reserve \$'000	Non- controlling Interest \$'000	Accu- mulated Losses \$'000	Total \$'000
Balance at 1 July 2010	35,188	-	16	211	151	(2,379)	33,187
Total comprehensive income for the year	-	-	-	(2,149)	(39)	(661)	(2,849)
Share based payments	-	-	(16)	-	-	-	(16)
Subtotal	35,188	-	-	(1,938)	112	(3,040)	30,322
Dividends paid or provided for	-	-	-	-	-	-	-
Balance at 30 June 2011	35,188	-	-	(1,938)	112	(3,040)	30,322
Balance at 1 July 2011	35,188	-	-	(1,938)	112	(3,040)	30,322
Total comprehensive income for the year	-	-	-	786	130	920	1,836
Sub total	35,188	-	-	(1,152)	242	(2,120)	32,158
Transactions with owners in their capacity as owners							
Movement in non-controlling interest	-	142	-	-	(242)	-	(100)
Balance at 30 June 2012	35,188	142	-	(1,152)	-	(2,120)	32,058

Notes to the financial statements are included on pages 21 to 69.

Statement of Cash Flows for the financial year ended 30 June 2012

	Note	Consolidated Group	
		2012 \$'000	2011 \$'000
Cash flows from operating activities			
Receipts from customers		49,130	45,272
Grant income received		-	-
Payments to suppliers and employees		(46,894)	(44,643)
Interest and other costs of finance paid		(399)	(433)
Income tax refund		-	2
Net cash provided by/(used in) operating activities	29(c)	1,837	198
Cash flows from investing activities			
Interest received		1	23
(Payment)/refund for deposits		67	(7)
Payment for property, plant and equipment		(212)	(490)
Proceeds from sale of property, plant and equipment		1	6
Payment for intangible assets		(34)	(75)
Payment for earnouts to previous owners		-	-
Payments for capitalised development costs		(1,353)	(1,420)
Net cash used in investing activities		(1,530)	(1,963)
Cash flows from financing activities			
Proceeds from borrowings		1,000	1,958
Repayment of borrowings		(993)	(2,527)
Repayment of leases		(56)	(94)
Net cash provided by / (used in) financing activities		(49)	(663)
Net (decrease)/increase in cash and cash equivalents		258	(2,428)
Cash and cash equivalents at the beginning of the financial year		1,009	3,217
Effects of exchange rate changes on the balance of cash held in foreign currencies		(64)	220
Cash and cash equivalents at the end of the financial year	29(a)	1,203	1,009

Notes to the financial statements are included on pages 21 to 69.

Notes to the Financial Statements for the financial year ended 30 June 2012

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Notes to the Financial Statements

1. Significant accounting policies

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

Statement of compliance

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

The consolidated financial statements for the year ended 30 June 2012 (including comparatives) were approved and authorised by the board of directors on 29 August 2012.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. All amounts are presented in Australian Dollars unless otherwise 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. Ellex Medical Lasers Limited is a for profit entity for the purpose of preparing financial statements.

Adoption of new and revised accounting standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 materially affected any of the amounts recognised in the current period or any prior period.

Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

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:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*) AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption.

The de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

- * In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12. Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns.

1. Significant accounting policies continued

Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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:

1. Significant accounting policies continued

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 \$6,602 thousand is made up of products currently being sold and expected to be sold within the period of amortisation identified at note 1(m).

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 \$271 thousand is deemed to be appropriate and consistent with the warranty policy.

Accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2012 and the comparative information presented in these financial statements for the year ended 30 June 2011.

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.

(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 statement of financial position.

(d) Derivative financial instruments

The consolidated group enters into derivative financial instruments from time to time to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 30 to the financial statements.

(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.

1. Significant accounting policies continued

(e) Employee benefits continued

Contributions to employee 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 30.

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each 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.

1. Significant accounting policies continued

(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

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 date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance 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.

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

(j) 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.

1. Significant accounting policies continued

(j) Government grants continued

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.

(k) 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.

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.

(l) Income tax

Current tax

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

Deferred tax

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

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

1. Significant accounting policies continued

(l) Income tax continued

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

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

Current and deferred tax for the period

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

Tax consolidation

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

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

(m) 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 expense/capitalised development costs

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

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

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

1. Significant accounting policies continued

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 – 10 years

(n) 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.

(o) 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.

(p) 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 26 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.

Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Ellex Medical Lasers Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1. Significant accounting policies continued

(p) Principals of consolidation continued

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(q) 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 – 20 years

(r) 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.

(s) 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.

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.

(t) 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.

(u) Foreign currency translation

The consolidated financial statements are presented in Australian dollars (AUD), which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

(v) Segment reporting

Operating segments are considered components of an entity about which separate financial information is available that is evaluated by chief operating decision makers (CODM) in deciding how to allocate resource and in assessing performance.

The Group's segments used by the CODM are Distribution and Direct.

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

1. Significant accounting policies continued

(v) Segment reporting continued

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

(w) Equity

Ordinary shares are classified as equity.

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

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Ellex Medical Lasers Limited as treasury shares until the shares are cancelled or reissued.

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Ellex Medical Lasers Limited.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share

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

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Parent entity financial information

The financial information for the parent entity, Ellex Medical Lasers Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements except for that outlined per note 31.

(y) Comparative information

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. An amount of \$721 thousand has been reclassified from trade and other payables to trade and other receivables for 2011 to show the net amount receivables in line with that of 2012.

Notes to the Financial Statements

2. Revenue

	Consolidated Group	
	2012 \$'000	2011 \$'000
Revenue from continuing operations consisted of the following items:		
Revenue from the sale of goods	47,503	43,116
Interest revenue:		
Bank deposits	1	19
	47,504	43,135

3. Finance costs

	Consolidated Group	
	2012 \$'000	2011 \$'000
Interest on bank overdrafts and loans	348	356
Interest on obligations under finance leases	3	13
Other interest expense	48	64
Attributable to continuing operations	399	433

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	
	2012 \$'000	2011 \$'000
Gain/(loss) on disposal of property, plant and equipment	(16)	3
Research and Development Income	217	257
Other income	136	118
	337	378

4. Profit/(loss) for year continued

(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	
	2012 \$'000	2011 \$'000
Cost of goods sold	23,725	23,179
Net bad and doubtful debts arising from:		
Trade and other receivables	(101)	(17)
	(101)	(17)
Write-down of inventories to net realisable value	(23)	48
Write-off of obsolete stock	(30)	(53)
Total of movement in stock provision	(53)	(5)
Depreciation of property, plant and equipment	667	689
Amortisation of intangible assets	1,016	1,079
	1,683	1,768
Provision for Sacramento closure costs	-	303
Legal fees	16	58
Net realised foreign exchange (gains)/losses	(155)	394
Operating lease rental expenses:		
Minimum lease payments	2,895	3,105
Post employment benefits:		
Defined contribution plans	710	631
Total of post employment benefits	710	631

5. Income tax

(a) Income tax recognised in profit or loss

	Consolidated Group	
	2012 \$'000	2011 \$'000
Tax expense comprises:		
Current tax expense	576	138
Deferred tax (benefit)	(499)	(525)
Total tax benefit	17	(387)

The prima facie income tax (benefit) on pre-tax accounting (loss)/profit from operations reconciles to the income tax (benefit) in the financial statements as follows:		
Profit/(loss) from operations	1,067	(1,087)
Income tax expense/(benefit) calculated at 30%	320	(326)
Non-deductible expenses	9	15
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	(121)	69
Other – Research and Development Tax Concession	(148)	(355)
Other	(60)	206
Under/(over) provision of income tax in previous year	17	4
Total income tax benefit	17	(387)

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	
	2012 \$'000	2011 \$'000
Current tax assets		
Prepaid taxes (US)	8	23
	8	23

5. Income tax continued

(c) Deferred tax balances

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

2012	Consolidated Group			
	1/07/11	Charged to Income	ACA Stepdown	30/06/12
Temporary differences				
PPE	68	(68)	(2)	(2)
Intangibles	3,264	(262)	-	3,002
Capitalised Research and Development	(1,689)	(459)	-	(2,148)
Section 40-880 deductions	-	10	-	10
Provisions	484	(5)	-	479
Doubtful Debts	29	(29)	-	-
Other financial liabilities	(29)	32	-	3
Temporary difference on unrealised intercompany profits	575	8	-	583
Other	17	251	(71)	199
	2,719	(522)	(73)	2,124
Unused tax losses and credits				
Tax losses (Japan)	1,672	645	-	2,317
Tax losses (USA)	205	(154)	-	51
Tax losses (Australia)	72	(72)	-	-
Tax losses (Tax consolidated group)	3,193	207	-	3,400
	5,142	626	-	5,768
	7,861	104	(73)	7,892

5. Income tax continued

(c) Deferred tax balances continued

2011	Consolidated Group			
	1/07/10	Charged to Income	Foreign Exchange	30/06/11
Temporary differences				
PPE	63	5	-	68
Intangibles	3,508	(244)	-	3,264
Capitalised Research and Development	(1,522)	(167)	-	(1,689)
Provisions	508	(24)	-	484
Doubtful Debts	33	(4)	-	29
Other financial liabilities	134	(163)	-	(29)
Temporary difference on unrealised intercompany profits	621	(46)	-	575
Other	76	(59)	-	17
	3,421	(702)	-	2,719
Unused tax losses and credits				
Tax losses (Japan)	1,672	-	-	1,672
Tax losses (USA)	205	-	-	205
Tax losses (Australia)	38	34	-	72
Tax losses (Tax consolidated group)	2,137	1,056	-	3,193
	4,052	1,090	-	5,142
	7,473	388	-	7,861

(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 26.

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.

5. Income tax continued

(d) Tax consolidation continued

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:

	2012		2011	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of the financial year	-	-	133,333	\$0.55
Granted during the financial year	-	-	-	-
Lapsed during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	(133,333)	\$0.55
Balance at end of the financial year	-	-	-	-
Exercisable at end of the financial year	-	-	-	-

There were no share options exercised during 2012 and 2011.

7. Trade and other receivables

	Consolidated Group	
	2012 \$'000	2011 \$'000
Current		
Trade receivables(i)	9,196	10,647
Allowance for doubtful debts	(2)	(103)
	9,194	10,544
Other receivables	132	79
Goods and services tax (GST) recoverable	36	39
	9,362	10,662
Non Current		
Sundry recoverables	234	302
	234	302

- (i) The average credit period on sales of goods is 66 days (2011: 91 days). The debtors balance that has been financed is \$2,163 thousand (2011: \$2,654 thousand). The relates specifically to receivables due from customers in Japan. After deducting this balance, the average credit period on sales of goods is 49 days (2011: 68 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

	Consolidated Group	
	2012 \$'000	2011 \$'000
Ageing of past due but not impaired		
60 – 90 days	168	823
90 – 120 days	431	475
Total	599	1,298

Movement in the allowance for doubtful debts

Balance at the beginning of the year	103	120
Amounts written off as uncollectible	-	-
Amounts reversed as previously over provided	(101)	(17)
Balance at the end of the year	2	103

7. Trade and other receivables continued

	Consolidated Group	
	2012 \$'000	2011 \$'000
Ageing of impaired trade receivables		
60 – 90 days	-	-
90 – 120 days	-	-
120+ days	2	6
Total	2	6

8. Inventories

	Consolidated Group	
	2012 \$'000	2011 \$'000
Current		
Raw materials – at cost	3,153	3,808
Raw materials – at net realisable value	122	92
Work in progress – at cost	984	1,475
Work in progress - at net realisable value	6	12
Finished goods – at cost	7,922	7,647
Finished goods – at net realisable value	13	251
	12,200	13,285
Non-Current		
Finished goods - at cost	2,670	3,284
	2,670	3,284

9. Other current assets

	Consolidated Group	
	2012 \$'000	2011 \$'000
Prepayments	973	812
	973	812

10. 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 2010	85	7,525	500	8,110
Classification transfer	(85)	545	(460)	-
Additions	-	490	-	490
Disposals	-	(12)	(40)	(52)
Net foreign currency exchange difference	-	(372)	-	(372)
Balance at 30 June 2011	-	8,176	-	8,176
Additions	-	212	-	212
Disposals	-	(113)	-	(113)
Net foreign currency exchange difference	-	150	-	150
Balance as at 30 June 2012	-	8,425	-	8,425
Accumulated depreciation/amortisation and impairment				
Balance at 30 June 2010	(33)	(4,914)	(168)	(5,115)
Classification transfer	37	(206)	169	-
Depreciation	(4)	(673)	(12)	(689)
Disposals	-	136	11	147
Net foreign currency exchange differences	-	149	-	149
Balance at 30 June 2011	-	(5,508)	-	(5,508)
Depreciation	-	(667)	-	(667)
Disposals	-	68	-	68
Net foreign currency exchange differences	-	33	-	33
Balance at 30 June 2012	-	6,074	-	6,074
Net book value				
As at 30 June 2011	-	2,668	-	2,668
As at 30 June 2012	-	2,351	-	2,351

11. Other intangible assets

	Consolidated Group
	Patents and Trademarks \$'000
Gross carrying amount	
Balance at 30 June 2010	845
Additions	75
Balance at 30 June 2011	920
Additions	34
Balance at 30 June 2012	954
Accumulated amortisation and impairment	
Balance at 30 June 2010	(141)
Amortisation expense	(40)
Balance as at 30 June 2011	(181)
Amortisation expense	18
Balance as at 30 June 2012	(163)
Net book value	
As at 30 June 2011	739
As at 30 June 2012	791

12. Capitalised development expenditure

	Consolidated Group	
	Capitalised Development \$'000	
Gross carrying amount		
Balance at 30 June 2010		9,304
Additions		1,419
Balance at 30 June 2011		10,723
Additions		1,353
Balance at 30 June 2012		12,076
Accumulated amortisation and impairment		
Balance at 30 June 2010		(3,403)
Amortisation expense		(1,039)
Balance as at 30 June 2011		(4,442)
Amortisation expense		(1,032)
Balance as at 30 June 2012		(5,474)
Net book value		
As at 30 June 2011		6,281
As at 30 June 2012		6,602

13. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 15 to the financial statements, all non-current and current assets of the consolidated group (except capitalised development and deferred tax assets), have been pledged as security under banking agreements.

14. Current trade and other payables

	Consolidated Group	
	2012 \$'000	2011 \$'000
Trade payables (i)	674	3,637
Accruals	1,067	1,551
Payable to directors	93	142
Other payables	623	784
	2,457	6,114

(i) The average credit period on purchases of certain goods from the invoice date is 31 days (2011: 81 days).

15. Borrowings

Secured – at amortised cost

	Consolidated Group	
	2012 \$'000	2011 \$'000
Current		
Bank overdrafts (note 29a)	646	735
Bank borrowings (i)	2,908	6,459
Finance lease liabilities (note 25a) (ii)	38	44
Other loans (unsecured)	160	162
	3,752	7,400
Non-Current		
Bank borrowings (iii)	4,103	1,038
Finance lease liabilities (note 25a) (ii)	-	38
	4,103	1,076

Summary of borrowing arrangements

- (i) The current borrowings include \$375 thousand (2011: \$3,670 thousand) being the current portion of the commercial bill and \$2,162 thousand (2011: \$2,654 thousand) of YEN denominated debtor financing. Both of these amounts are due to Westpac Banking Corporation and are secured by a fixed and floating charge over the Group's assets. The balance also includes \$369 thousand of YEN denominated bank debt due to Kansai U.
- (ii) Secured by the assets leased. The borrowings are all at fixed interest rates with repayment periods not exceeding 5 years.
- (iii) The non-current borrowings include \$2,625 thousand (2011: Nil) being the non-current portion of the commercial bill due to Westpac Banking Corporation which is secured by a fixed and floating charge over the Group's assets. The balance also includes \$1,478 thousand (2011: \$1,038 thousand) of YEN denominated bank debt due to Kansai U.
- (iv) During the year, the Group renegotiated its Westpac bank facilities post year end as follows:
- ♦ \$3 million commercial bill facility with quarterly principal reductions of \$93,750 plus interest and fees, expiry date 25 June 2014 (previously due in 12 months)
 - ♦ \$1.25 million overdraft facility subject to annual review, but payable on demand.
- The covenants have not changed from the previous agreement and are outlined per Note 30a.

16. Provisions

	Consolidated Group	
	2012 \$'000	2011 \$'000
Current		
Employee benefits	1,690	1,566
Warranty (i)	271	441
	1,961	2,007
Non-Current		
Employee benefits	165	190
	2,126	2,197

	Consolidated Group	
	Warranty (i)	
Balance at 1 July 2010		444
Additional provisions recognised		436
Amounts used		(439)
Balance at 30 June 2011		441
Additional provisions recognised		100
Amounts used		(270)
Balance at 30 June 2012		271

- (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.

17. Other current liabilities

	Consolidated Group	
	2012 \$'000	2011 \$'000
Deferred grant income	10	194
Deferred warranty income	394	280
	404	474

18. Other non-current liabilities

	Consolidated Group	
	2012 \$'000	2011 \$'000
Deferred grant income	-	-
Deferred warranty income	32	78
	32	78

19. Issued capital

	Consolidated Group	
	2012 \$'000	2011 \$'000
84,910,345 fully paid ordinary shares		
(2011: 84,910,345)	35,188	35,188
	35,188	35,188

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 2012		Company 2011	
	No. '000	\$'000	No. '000	\$'000
Fully paid ordinary shares				
Balance at beginning of financial year	84,910	35,188	84,910	35,188
Share issue (costs)/benefits	-	-	-	-
Balance at end of financial year	84,910	35,188	84,910	35,188

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

20. Reserves

	Consolidated Group	
	2012 \$'000	2011 \$'000
Share option reserve		
Balance at beginning of financial year	-	16
Lapsed – Employee Share Options	-	16
Balance at end of financial year	-	-

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	(1,938)	211
Translation of foreign operations	786	(2,149)
Balance at end of financial year	(1,152)	(1,938)

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

Other reserves

Balance at beginning of financial year	-	-
Transaction with non-controlling interest	142	-
Balance at end of financial year	142	-

Transactions with non-controlling interests

This reserve is issued to record the differences described in note 1 which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

21. Accumulated losses

	Consolidated Group	
	2012 \$'000	2011 \$'000
Balance at beginning of financial year	(3,040)	(2,379)
Net profit/(loss) attributable to members of the parent entity	920	(661)
Balance at end of financial year	(2,120)	(3,040)

22. Earnings per share

	Consolidated Group	
	2012 Cents per share	2011 Cents per share
Basic earnings per share:		
Total basic earnings per share	1.2	(0.8)
Diluted earnings per share:		
Total diluted earnings per share	1.2	(0.8)

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	
	2012 \$'000	2011 \$'000
Net profit/(loss)	920	(661)

	Consolidated Group	
	2012 No.	2011 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	84,910,345	84,910,345

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	
	2012 \$'000	2011 \$'000
Net profit/(loss)	920	(661)

22. Earnings per share continued

	Consolidated Group	
	2012 No.	2011 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	84,910,345	84,910,345
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 EPS (i)	84,910,345	84,910,345

- (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.

23. Dividends

	2012		2011	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Company	
	2012 \$'000	2011 \$'000
Adjusted franking account balance	3,558	3,558

24. Commitments for expenditure

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 25 to the financial statements.

25. 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.

25. Leases continued

(a) Finance leases continued

	Minimum future lease payments		Present value of minimum future lease payments	
	Consolidated Group		Consolidated Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Not longer than 1 year	39	57	38	44
Later than 1 year and not later than 5 years	-	38	-	38
Later than 5 years	-	-	-	-
Minimum future lease payments	39	95	38	82
Less future finance charges	(1)	(13)	-	-
Present value of minimum lease payments	38	82	38	82
Included in the financial statements as: (note 15)				
Current borrowings			38	44
Non-current borrowings			-	38
			38	82

(b) Operating leases

Leasing arrangements

Operating leases relate to business premises with lease terms of between 2 to 5 years and property, plant and equipment with lease terms less than 5 years. The business premises leases will be reviewed at the end of the lease term.

	Consolidated Group	
	2012 \$'000	2011 \$'000
Non-cancellable operating lease payments		
Not longer than 1 year	1,033	941
Longer than 1 year and not longer than 5 years	1,862	2,156
	2,895	3,097

26. Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2012 %	2011 %
Parent Entity			
Ellex Medical Lasers Limited (i) (ii)	Australia		
Subsidiaries			
Ellex Medical Pty Ltd (i) (ii)	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 (i) (ii) (iii)	Australia	100	80
Ellex Services Europe SARL	France	100	100
Innovative Imaging, Inc	USA	100	100
Ellex Deutschland GmbH	Germany	100	100
Ellex Machine Shop Pty Ltd (i) (ii)	Australia	100	100

- (i) Ellex Medical Lasers Limited is the head of the Tax Consolidated Group which includes Ellex Medical Pty Ltd, Ellex Australia Pty Ltd, Ellex R&D Pty Ltd and Ellex Machine Shop 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.
- (iii) Transactions with non-controlling interest.

At the end of February 2012, Ellex Medical Lasers Limited acquired an additional 20% of the issued shares of Ellex Australia Pty Ltd for \$100,000. The carrying amount of the non-controlling interests in Ellex Australia Pty Ltd on the date of acquisition was \$242,000. The Group recognised a decrease in non-controlling interests of \$242,000 and an increase in equity attributable to owners of the parent of \$142,000. The effect of changes in the ownership interest of Ellex Australia Pty Ltd on the equity attributable to owners of Ellex Medical Lasers during the year is summarised as follows:

	2012 \$'000	2011 \$'000
Carrying amount of non-controlling interests acquired	242	-
Consideration paid to non-controlling interest	(100)	-
Non-controlling interest reserve in equity	142	-

26. Subsidiaries continued

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

	Consolidated Group	
	2012 \$'000	2011 \$'000
Statement of comprehensive income		
Revenue	38,296	28,215
Other income	816	1,209
Loss on sale of property, plant and equipment	(16)	(3)
Raw materials and consumables used	(24,572)	(17,268)
Employee benefits expense	(8,216)	(7,055)
Depreciation and amortisation expense	(1,509)	(1,454)
Legal fees	(16)	(32)
Advertising and marketing	(805)	(753)
Finance costs	(307)	(334)
Product development	(276)	(795)
Provision for plant closure	-	(303)
Foreign currency translation movement	141	(344)
Other expenses	(2,014)	(1,560)
Profit/(Loss) before income tax	1,522	(477)
Income tax credit/(expense)	(481)	499
Profit/(Loss) for the year	1,041	22

	Consolidated Group	
	2012 \$'000	2011 \$'000
Statement of financial position		
Current assets		
Cash assets	1,012	(443)
Trade and other receivables	4,239	6,345
Inventories	8,664	7,373
Other	771	402
Total current assets	14,686	13,677

26. Subsidiaries continued

	Consolidated Group	
	2012 \$'000	2011 \$'000
Non-current assets		
Trade and other receivables	20,290	21,032
Property, plant and equipment	2,243	2,450
Deferred tax assets	4,356	5,311
Other intangible assets	782	731
Capitalised development expenditure	6,602	5,629
Total non-current assets	34,273	35,153
Total assets	48,959	48,830
Current liabilities		
Trade and other payables	4,152	5,140
Borrowings	1,219	3,864
Provisions	1,362	1,151
Other	10	-
Total current liabilities	6,743	10,155
Non-current liabilities		
Borrowings	2,625	-
Provisions	165	194
Other liabilities	-	189
Total non-current liabilities	2,790	383
Total liabilities	9,533	10,538
Net assets	39,426	38,292
Equity		
Issued capital	35,190	35,190
Reserves	93	-
Retained earnings	4,143	3,102
	39,426	38,292

27. 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.

27. Segment information continued

(a) Segment performance

	Distributors \$'000	Direct \$'000	Total \$'000
Year ended 30 June 2012			
Revenue			
External sales	13,178	34,325	47,503
Interest revenue	1	-	1
Total segment revenue	13,179	34,325	47,504
Segment net profit before tax	3,569	4,615	8,184
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			(1,683)
Unallocated items:			
Corporate charges			(5,372)
Finance costs			(399)
Other income/(expense)			337
Net profit before tax from continuing operations			1,067
Year ended 30 June 2011			
Revenue			
External sales	11,616	31,500	43,116
Interest revenue	15	4	19
Total segment revenue	11,631	31,504	43,135
Segment net profit before tax	2,649	3,770	6,419
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			(1,768)
Unallocated items:			
Corporate charges			(5,683)
Finance costs			(433)
Other income/(expense)			378
Net profit before tax from continuing operations			(1,087)

27. Segment information continued

(b) Segment assets

	Distributors \$'000	Direct \$'000	Total \$'000
30 June 2012			
Segment assets – opening	11,076	22,425	33,501
Segment asset charges for the period:			
Net reduction in inventories and receivables	(1,627)	(2,227)	(3,854)
Total segment assets	9,449	20,198	29,647
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			7,892
Capitalised development expenditure			6,602
Intangibles			791
Total group assets			44,932
30 June 2011			
Segment assets – opening	10,881	26,541	37,422
Segment asset charges for the period:			
Net reduction in inventories and receivables	195	(4,837)	(4,642)
Total segment assets	11,076	21,704	32,780
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			7,861
Capitalised development expenditure			6,281
Intangibles			739
Total group assets			47,661

27. Segment information continued

(c) Segment liabilities

	Distributors \$'000	Direct \$'000	Total \$'000
30 June 2012			
Segment liabilities	4,057	8,817	12,874
30 June 2011			
Segment liabilities	4,226	13,113	17,339

(d) Revenue by geographical region

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

	2012 \$'000	2011 \$'000
Australia	11,352	6,147
United States of America	9,872	8,112
Europe / Middle East	9,651	9,414
Japan	12,176	14,459
Asia	2,206	2,624
South America and other	2,246	2,360
Total revenue	47,503	43,116

(e) Assets by geographical region

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

	2012 \$'000	2011 \$'000
Australia	30,616	25,365
United States of America	3,974	6,589
Europe	412	453
Japan	9,930	15,254
Asia	-	-
Other	-	-
Total assets	44,932	47,661

27. Segment information continued

(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 12.08% of external revenue (2011: 11.1%). The Group supplies one single external customer in the distributor segment which accounts for 8.13% of external revenue (2011: 15.2%).

28. 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 26 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 2012.

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

	Consolidated Group	
	2012 \$'000	2011 \$'000
Short-term employee benefits (i)	602,497	788,411
Post-employment benefits	42,102	57,926
	644,599	846,337

(i) The CEO has been advanced an interest-free non-recourse loan of \$29,112 for the purchase of 140,000 Ellex shares on 26 March 2012.

(d) Key management personnel share holdings

Fully paid ordinary shares of Ellex Medical Lasers Limited

2012	Balance @ 1/7/11 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/12 No.	Balance held nominally No.
V Previn	9,316,031	-	-	-	9,316,031	9,316,031
A Sundich	6,300,000	-	-	-	6,300,000	6,300,000
J Marshall (i)	50,000	-	-	-	50,000	-
G Canala	4,061,788	-	-	-	4,061,788	4,061,788
M Plunkett	104,000	-	-	-	104,000	-
T Spurling	-	-	-	157,000	157,000	-

28. Related party disclosures continued

Fully paid ordinary shares of Ellex Medical Lasers Limited

2011	Balance @ 1/7/10 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/11 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 (i)	50,000	-	-	-	50,000	-
G Canala	4,061,788	-	-	-	4,061,788	4,061,788
M Plunkett	104,000	-	-	-	104,000	-
T Spurling	-	-	-	-	-	-
S Luscombe (ii)	25,668	-	-	(25,668)	-	-
M Young (iii)	13,000	-	-	(13,000)	-	-
	19,870,487	-	-	(38,668)	19,831,819	18,677,819

(i) Ceased 23 September 2011

(ii) Ceased 31 March 2011

(iii) Ceased 6 May 2011

Executive share options of Ellex Medical Lasers Limited

2012	Balance @ 1/7/11 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/12 No.	Balance held nominally No.
M Plunkett	-	-	-	-	-	-
	-	-	-	-	-	-

Executive share options of Ellex Medical Lasers Limited

2011	Balance @ 1/7/10 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/11 No.	Balance held nominally No.
M Plunkett	66,667	-	-	(66,667)	-	-
	66,667	-	-	(66,667)	-	-

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

(e) Related party non-controlling interest

The non-controlling interest in Ellex Australia Pty Ltd was acquired during the year. Prior to the acquisition all transactions between the Group and Simon Luscombe (previous owner of non-controlling interest) have been done on an arms-length basis and are disclosed in the notes below.

28. Related party disclosures continued

(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 2012, 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	\$13,762
♦ A Sundich	\$10,702
♦ G Canala	\$18,345
♦ M Plunkett	\$50,143

At 30 June 2011, 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	\$83,809
♦ A Sundich	\$10,702
♦ J Marshall	\$5,000
♦ G Canala	\$18,345
♦ M Plunkett	\$24,464

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

John Marshall

Pursuant to an agreement dated 23 January 2007 and subject to certain conditions, John Marshall has a right to (i) acquire 20% of the share capital of Ellex R&D Pty Ltd and (ii) a royalty of 2% on the sale of certain products by the Company. During the year ended 30 June 2011 and 30 June 2012 there were no product sales that attracted the royalty.

Transactions between Ellex Medical Lasers Limited and its related parties

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

- Loan totalling \$5,836 thousand (2011: \$11,487 thousand) are receivable from subsidiaries.

Transactions between the Group and its related parties

During the financial year ended 30 June 2012, the following transactions occurred between the Group and its other related parties:

- Interest payments of \$311 thousand (2011: \$373 thousand) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 3.85% (2011: 3.68%). Interest is payable annually.
- Sales between the subsidiaries totalled \$16,895 thousand (2011: \$16,673 thousand) during the year. Payment terms are 60 days.
- Management fees were charged between subsidiaries of \$1,365 thousand (2011: \$850 thousand) during the year for management, accounting, marketing and communications support.

29. Cash flow information

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, 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 statement of cash flow is reconciled to the related items in the statement of financial position:

	Consolidated Group	
	2012 \$'000	2011 \$'000
Cash and cash equivalents	1,849	1,744
Bank overdraft (note 15)	(646)	(735)
	1,203	1,009

(b) Financing facilities

New facilities have been varied to existing agreements classifying debt from current to non-current

	Consolidated Group	
	2012 \$'000	2011 \$'000
Flexible Options Finance (overdraft facility)		
• amount used (note 15)	646	3,474
• amount unused	604	-
	1,250	3,474
Commercial Bill line (acquisitions)		
• amount used (note 15)	-	670
• amount unused	-	-
	-	670
Equipment finance and finance advance (insurance premium)		
• amount used (note 15)	168	244
• amount unused	-	-
	168	244
Other facilities		
• amount used (note 15)	-	-
• amount unused	500	500
	500	500

29. Cash flow information continued

(b) Financing facilities continued

	Consolidated Group	
	2012 \$'000	2011 \$'000
Commercial Bill line		
• amount used (note 15)	3,000	-
• amount unused	-	-
	3,000	-

In the prior year the Commercial Bill line was recognised as part of the overdraft facility

	Consolidated Group	
	2012 Million JPY	2011 Million JPY
Debtor finance (Japan)		
• amount used (i)	175	228
• amount unused	-	-
		228

(i) At the reporting dates, these amounts outstanding totalled \$2,163 thousand (2011: \$2,654 thousand). The total debtors facility can only be drawn down against eligible debtors in accordance with the agreement.

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

	Consolidated Group	
	2012 \$'000	2011 \$'000
Profit/(loss) for the year	1,050	(700)
Depreciation and amortisation of non-current assets	1,683	1,768
(Profit)/loss on disposal of property, plant and equipment	16	(3)
Interest income received and receivable	1	(19)
(Increase)/decrease in tax balances	(16)	(190)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
• Current receivables	1,300	1,214
• Current inventories	1,699	530
• Other assets	(161)	35
• Current payables	(3,657)	(2,431)
• Other current and non-current liabilities	(78)	(6)
Net cash from operating activities	1,837	198

30. Financial instruments

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

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

	Note	Consolidated Group	
		2012 \$'000	2011 \$'000
Financial assets			
Cash and cash equivalents	29(a)	1,849	1,744
Receivables	7	9,362	10,662
Total financial assets		11,211	12,406
Financial liabilities			
Trade and other payables	14	2,457	6,114
Borrowings	15	7,855	8,476
Total financial liabilities		10,312	14,590

(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 2011.

The capital structure of the consolidated group consists of debt, which includes the borrowings disclosed in note 15, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 19, 20 and 21 respectively. The consolidated group operates globally, primarily through subsidiary companies established in the markets in which the consolidated group trades. None of the subsidiary companies are subject to externally imposed capital requirements.

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

Gearing ratio

The audit committee reviews the capital structure on a semi-annual basis. The consolidated group monitors the gearing ratio to determine the proportion of net debt to equity and in 2012 the target was 15% to 20%. 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.

30. Financial instruments continued

(a) Capital risk management continued

The gearing ratio at year end was as follows:

	Note	Consolidated Group	
		2012 \$'000	2011 \$'000
Financial assets			
Debt (i)		7,855	8,476
Cash and cash equivalents	29(a)	(1,849)	(1,744)
Net debt		6,006	6,732
Equity (ii)			
Equity (ii)		32,058	30,322
Net debt to equity ratio		18.73%	22.20%

(i) Debt is defined as long- and short-term borrowings, as detailed in note 15.

(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:

- Actual EBITDA in any quarter must not be more than \$100 thousand below Budgeted EBITDA for that quarter tested quarterly (31 March, 30 June, 30 September and 31 December). At December 2011, this requirement was breached and a letter of waiver was received from the bank.
- Group Equity to be maintained at not less than 50%, to be tested quarterly (31 March, 30 June, 30 September and 31 December).
- Utilisation of the Bank's debt facilities (excluding equipment finance and insurance premium funding) by Ellex Medical Pty Ltd at all times will be limited to the combined figure of 60% of total Ellex Group Debtors less than 60 days plus 50% of total Ellex Group Inventory holding less any inventory subject to retention title clauses.
- Grouped Capitalised R&D expenses in each quarter must not exceed the budgeted amount for that quarter by more than 10% without prior written consent by the lender. At June 2012, prior written consent was obtained from Westpac as the expenditure exceeded budget by more than 10%

(b) Financial risk management objectives

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

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

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

30. Financial instruments continued

(b) Financial risk management objectives continued

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 2012 or 2011.

(e) Market risk

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

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

(f) Foreign currency risk management

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

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

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

- Price lists

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.

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.

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, if considered practical, to manage the 'net' exposure.

Natural Hedge

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

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

- Foreign Currency Deposit Accounts - to store surplus funds from time-to-time;
- Foreign Currency Loans - where working capital requirements are drawn from time-to-time and repaid with foreign currency receipts.

30. Financial instruments continued

(f) Foreign currency risk management continued

Interim policy

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

	Liabilities		Assets	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
US dollars	310	375	1,752	1,719
Japanese Yen	4,756	4,224	5,244	6,680
Euro	584	285	1,451	1,167

Foreign currency sensitivity analysis

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

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

	Euro Impact Consolidated		USD Impact Consolidated		Japanese Yen Impact Consolidated	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit or loss	78	83	131	123	44	218

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

(g) Interest rate risk management

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

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

At reporting date, if interest rates had been 100 basis points (2011: 100 basis points) higher or lower and all other variables were held constant, the consolidated group's:

- Net profit after tax would increase by \$37 thousand and decrease by \$37 thousand (2011: increase by \$40 thousand and decrease by \$40 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.

30. Financial instruments continued

(h) Credit risk management

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

Trade accounts receivable consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, 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 29(b) is a listing of undrawn facilities that the consolidated group has at its disposal to further reduce liquidity risk.

(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.

30. Financial instruments continued

(k) Maturity profile of financial instruments continued

2012	Average interest rate	Less than 1 month \$'000	Interest rate maturity			5+ years \$'000	Total \$'000
			1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000		
Financial Liabilities							
Overdraft	10.21%	646	-	-	-	-	646
Commercial Bills	5.78%	-	94	282	2,624	-	3,000
Finance Lease	7.98%	4	8	26	-	-	38
Finance Advance	3.58%	26	52	82	-	-	160
Trade payables	-	-	674	-	-	-	674
Other payables	-	-	1,690	-	-	-	1,690
Payable to directors	-	93	-	-	-	-	93
Kansa Loan	1.7%	31	62	658	1,096	-	1,847
Debtor Finance Facility	2.5%	2,163	-	-	-	-	2,163
		2,963	2,580	1,048	3,720	-	10,311

2011	Average interest rate	Less than 1 month \$'000	Interest rate maturity			5+ years \$'000	Total \$'000
			1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000		
Financial Liabilities							
Overdraft	10.86%	735	-	-	-	-	735
Commercial Bills	6.55%	3,670	-	-	-	-	3,670
Finance Lease	7.98%	4	8	32	38	-	82
Finance Advance	3.51%	27	54	81	-	-	162
Trade payables	-	-	3,637	-	-	-	3,637
Other payables	-	-	2,335	-	-	-	2,335
Payable to directors	-	-	142	-	-	-	142
Kansa Loan	1.7%	-	-	-	1,173	-	1,173
Debtor Finance Facility	2.5%	2,654	-	-	-	-	2,654
		7,090	4,176	113	1,211	-	14,590

31. Parent entity information

	Parent Entity	
	2012 \$'000	2011 \$'000
Statement of financial position		
Total current assets	24	5
Total non current assets	31,209	29,579
Total assets	31,233	29,584
Total current liabilities	95	-
Total non current liabilities	(4,148)	(6,487)
Total liabilities	(4,053)	(6,487)
Share capital	35,190	35,190
Accumulated losses	96	881
Total Equity	35,286	36,071
Statement of comprehensive income		
(Loss)/profit for the year	(785)	(1)
Total comprehensive income	(785)	(1)

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

- Under tax funding arrangements, amounts receivable (or payable) recognised by the Ellex Group for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non current assets above, are recorded at cost less impairment of the investment value. Refer to note 26 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 2012 (2011: Nil).

(b) Contingent liabilities and guarantees

There are no contingent liabilities as at 30 June 2012 (2011: Nil).

(c) Indemnities, performance guarantees and financial support

The parent entity has provided the following indemnities, performance guarantees and financial support, through the Ellex entity as follows:

- Security over overseas subsidiaries assets to support facilities by Westpac to the value of \$16,488 thousand (2011: \$21,032 thousand).

32. Remuneration of auditors

	Consolidated Group	
	2012 \$	2011 \$
Auditor of the parent entity		
Audit or review of the financial report		
• Grant Thornton	98,000	95,000
	98,000	95,000

The auditor of Ellex Medical Lasers Limited is Grant Thornton Audit Pty Ltd (2011: Grant Thornton Audit Pty Ltd).

There were no non-audit service provided.

Directors' Declaration

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 Group Financial Controller 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 26 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors



Victor Previn
Chairman
Adelaide, 30 August 2012

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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

Report on the financial report

We have audited the accompanying financial report of Ellex Medical Lasers Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

- a the financial report of Ellex Medical Lasers Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S.J. Gray
Director – Audit & Assurance

Adelaide, 30 August 2012

Additional Stock Exchange Information as at 3 October 2012

Number of holders of equity securities

Ordinary share capital

- 84,910,345 fully paid ordinary shares are held by 3,057 individual shareholders.

All issued shares carry one vote per share.

Distribution of holders of equity securities

	Ordinary Shares
1 - 1,000	1,170
1,001 - 5,000	665
5,001 - 10,000	378
10,001 - 100,000	726
100,001 and over	118
	3,057
Holding less than a marketable parcel	1,450

Substantial shareholders

Ordinary shareholders	Fully Paid	
	Number	Percentage
Sedico Pty Ltd	9,316,031	10.97%
Pine Street Pty Ltd (i)	6,300,000	7.42%

- (i) Securities are registered in the names of Pine Street Pty Ltd ATF Pine Street Superannuation Fund and Pine Street Pty Ltd ATF Pine Street Trust.

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 <Intertech H Care Prtns LP A/C>	2,750,000	3.24%
Pine Street Pty Ltd <Pine Street Super Fund A/C>	2,700,000	3.18%
Pine Street Pty Ltd <Pine Street A/C>	3,600,000	4.24%
JP Morgan Nominees Australia Limited <Cash Income A/C>	1,826,758	2.15%
Ruminator Pty Ltd	1,644,227	1.94%
HSBC Custody Nominees (Australia) Limited	1,404,466	1.65%
Ms Choi Chu Lee	1,125,000	1.32%
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 Rahmon Charles Coupe + Mrs Julia Deborah Coupe <Super Fund>	974,900	1.15%
Five Talents Limited	963,607	1.13%
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	879,906	1.04%
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%
Mr Robert James Kenrick	770,500	0.91%
Mr Yukitaka Isoda	690,000	0.81%
Ms Yvonne Yuen Ying Tong	620,000	0.73%
AMH Custodian Pty Ltd	550,000	0.65%
	37,261,284	43.88%

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

Corporate Directory

Directors

Victor Previn BE
(Executive Chairman)

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

Malcolm Plunkett
(Executive Director)

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

Company Secretary

Giuseppe Canala BTECH, BA, FAICD

Registered Office

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

T +61 8 8104 5200
F +61 8 8104 5231

Auditors

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

Legal Advisors

Thomsons Lawyers
Level 7, 19 Gouger Street
Adelaide SA 5000

Share Registry

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

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

Website

www.ellex.com

Stock Exchange

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

ASX Code

ELX - Ordinary Shares



ellex.com

Headquarters

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

Japan

4-3-7 Miyahara 4F, Yodogawa-ku
Osaka 532-0003 JAPAN
+81 6 6396 2250

USA

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

Germany

Edisonstraße 20
63512 Hainburg GERMANY
+49 6182 829 6900

Australia

82 Gilbert Street
Adelaide, SA, 5000 AUSTRALIA
+61 8 8104 5264

Europe Support Center

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