
Ellex Medical Lasers Limited

**Preliminary Final Report
For the Year Ended
30 June 2004**

ASX Code: ELX

Appendix 4E

Preliminary final report

Name of entity

ELLEX MEDICAL LASERS LIMITED

ABN or equivalent company reference	Half yearly (tick)	Preliminary final (tick)	Half year/financial year ended ('current period')
15 007 702 927	<input type="checkbox"/>	<input checked="" type="checkbox"/>	30 JUNE 2004

For announcement to the market

Extracts from this report for announcement to the market.

\$A'000

Revenues from ordinary activities	up	1.6%	to	26,558
Profit (loss) from ordinary activities after tax attributable to members	down	112.6%	to	(206)
Profit (loss) from extraordinary items after tax attributable to members	gain (loss) of			
Net profit (loss) for the period attributable to members	down	112.6%	to	(206)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend (<i>Preliminary final report only</i>)	Nil ¢	Nil %
Interim dividend (<i>Half yearly report only</i>)		
Previous corresponding period	Nil ¢	Nil %

+Record date for determining entitlements to the dividend, (in the case of a trust, distribution) N/A

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

NPAT pre Goodwill for the year was positive \$0.9 million.

As previously advised, Ellex has focussed over the past twelve months on establishing a platform for growth. The Directors have previously stated this would curb short term profits with a view to driving growth in the medium to longer term. Approximately \$3 million has been invested on two key initiatives.

- **Expanding R&D capability through a new US based R&D centre. Ellex secured a talented team with over ten years experience in the ophthalmic laser market. This team brings complimentary skills to our R&D facility in Australia and will enable us to accelerate product development over the next two years.**
- **Establishing direct distribution and sales in Japan. Japan is the second largest ophthalmic laser market in the world behind the US. Ellex now has direct presence in these two significant markets through wholly owned subsidiaries.**

Ellex expects these two strategies to deliver substantial growth in revenue and profits over the next two – three years.

NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	17.1 ¢	16.5 ¢

Compliance statement

- 1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used

- 2 This report, and the ⁺accounts upon which the report is based (if separate), use the same accounting policies.

- 3 This report does give a true and fair view of the matters disclosed.

- 4 This report is based on ⁺accounts to which one of the following applies.

(Tick one)

The ⁺accounts have been audited.

The ⁺accounts have been subject to review.

The ⁺accounts are in the process of being audited or subject to review.

The ⁺accounts have *not* yet been audited or reviewed.

- 5 If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available.

- 6 The entity has a formally constituted audit committee.

Sign here: Date:
(Director/Company Secretary)

Print name:

Ellex Medical Lasers Limited
Statement of Financial Performance for the year ended 30 June 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from ordinary activities		26,558	26,128	903	1,540
Raw materials and consumables used		(13,839)	(13,429)	-	-
Changes in labour and overhead		23	406	-	-
Employee benefits expense		(8,256)	(6,791)	-	-
Legal fees		(50)	(105)	-	-
Depreciation and amortisation expense		(1,548)	(1,418)	-	-
Advertising and marketing expenses		(531)	(407)	-	-
Borrowing costs		(148)	(216)	-	-
Insurance costs		(360)	(261)	-	-
Other expenses from ordinary activities		(2,225)	(1,691)	(646)	(8)
<i>(Loss)/Profit from ordinary activities before income tax (expense)/benefit</i>	2	(376)	2,216	257	1,532
Income tax (expense)/benefit relating to ordinary activities	3	170	(584)	64	195
<i>(Loss)/Profit from ordinary activities after related income tax (expense)/benefit</i>		(206)	1,632	321	1,727
Increase/(decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations	26	94	(388)	-	-
<i>Total changes in equity other than those resulting from transactions with owners as owners</i>		(112)	1,244	321	1,727
Earnings per share					
- Basic (cents per share)	29	(0.3)	2.7		
- Diluted (cents per share)	29	(0.3)	2.7		

Ellex Medical Lasers Limited
Statement of Financial Position as at 30 June 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current assets					
Cash assets		756	1,059	-	-
Receivables	8	3,297	3,626	4,529	4,263
Inventories	9	9,398	8,013	-	-
Current tax assets	18	-	75	-	2
Other current assets	10	222	122	-	-
Total current assets		13,673	12,895	4,529	4,265
Non-current assets					
Other financial assets	11	-	-	24,231	24,099
Property, plant and equipment	12	4,611	3,684	-	-
Intangibles	13	18,875	19,956	-	-
Deferred tax assets	14	1,155	540	17	92
Total non-current assets		24,641	24,180	24,248	24,191
Total assets		38,314	37,075	28,777	28,456
Current liabilities					
Payables	16	4,376	3,165	-	-
Interest-bearing liabilities	17	92	73	-	-
Current tax liabilities	18	396	-	-	-
Provisions	19	677	606	-	-
Other	20	4	448	-	-
Total current liabilities		5,545	4,292	-	-
Non-current liabilities					
Interest-bearing liabilities	21	2,145	2,087	-	-
Provisions	22	146	106	-	-
Total non-current liabilities		2,291	2,193	-	-
Total liabilities		7,836	6,485	-	-
Net assets		30,478	30,590	28,777	28,456
Equity					
Contributed equity	25	27,985	27,985	27,984	27,984
Reserves	26	2,699	2,605	472	472
Retained profits/(accumulated losses)	27	(206)	-	321	-
Total equity		30,478	30,590	28,777	28,456

Ellex Medical Lasers Limited
Statement of Cash Flows for the financial year ended 30 June 2004

	Note	Consolidated		Company	
		Inflows (Outflows)		Inflows (Outflows)	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<i>Cash flows from operating activities</i>					
Receipts from customers		26,673	28,400	-	-
Payments to suppliers and employees		(25,367)	(23,922)	-	2
Interest and bill discounts received		13	18	-	9
Interest and other costs of finance paid		(148)	(216)	-	-
Dividends received		-	-	-	1,531
Income tax refunds received		255	121	-	-
Income tax paid		(222)	(1,672)	-	-
Net cash from operating activities	36(c)	1,204	2,729	-	1,542
<i>Cash flows from investing activities</i>					
Payment for purchase of intangibles		(33)	-	-	-
Payment for property, plant and equipment		(1,218)	(484)	-	-
Proceeds from sale of property, plant and equipment		3	47	-	-
Net cash used in investing activities		(1,248)	(437)	-	-
<i>Cash flows from financing activities</i>					
Proceeds from issues of equity securities		-	73	-	70
Payment for share issue costs		-	(3)	-	-
Repayment of borrowings		(181)	(1,400)	-	(780)
Proceeds from borrowings		-	1,423	-	-
Dividends paid		-	(1,531)	-	(1,531)
Repayment of leases		(80)	(128)	-	-
Net cash used in financing activities		(261)	(1,566)	-	(2,241)
<i>Net increase/(decrease) in cash held</i>		(305)	726	-	(699)
<i>Cash at the beginning of the financial year</i>		1,059	368	-	699
Effects of exchange rate changes on the balance of cash held in foreign currencies		2	(35)	-	-
<i>Cash at the end of the financial year</i>	36(a)	756	1,059	-	-

Ellex Medical Lasers Limited
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Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

1. Summary of Accounting Policies

Financial Reporting Framework

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

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

Significant Accounting Policies

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

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

(a) *Accounts Payable*

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

(b) *Acquisition of Assets*

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

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

(c) *Capital Gains Tax*

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

(d) *Depreciation*

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

- Buildings 40 years
- Plant & equipment 2.5 - 20 years
- Equipment under finance lease 6.5 - 8 years

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

(e) Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts. Further details of derivative financial instruments are disclosed in note 37 to the financial statements.

Foreign Exchange Contracts

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

In the event of the early termination of a foreign currency hedge of an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- Deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur as designated; or
- Recognised in net profit or loss at the date of termination, if the anticipated transaction is no longer expected to occur as designated.

(f) Employee Entitlements

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

Provisions made in respect of wages and salaries, annual leave, long service leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

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

(g) Foreign Currency

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

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

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

In relation to transactions intended to hedge specific purchases or sales:

- i) costs or gains arising at the time of entering into the transactions; and
- ii) exchange differences, to the extent that they arise up to the dates of purchase or sale

are deferred and included in the measurement of the purchases or sales.

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

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

Financial statements of integrated foreign controlled entities are translated at reporting date using the temporal method and exchange differences are included in the statement of financial performance.

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

(h) Goods and Services Tax

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

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

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

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

(i) Goodwill

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

(j) Income Tax

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

(k) Interest-Bearing Liabilities

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

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

(l) Inventories

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

(m) Investments

Investments in controlled entities are recorded at cost. Other investments are recorded at cost.

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

(n) Leased Assets

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

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

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

Ellex Medical Lasers Limited

Notes to the Financial Statements for the year ended 30 June 2004

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

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

(o) Patents, Trademarks and Licences

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

(p) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 1024 'Consolidated Accounts'. A list of controlled entities appears in note 33 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

(q) Provisions

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors.

(r) Receivables

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

(s) Recoverable Amount of Non-Current Assets

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

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

(t) Research and Development Costs

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

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

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

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

(u) Revenue Recognition

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

Non-refundable Government Grants received have been recognised as revenue in net profit or loss.

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

2. Profit/(Loss) from Ordinary Activities

Profit/(Loss) from ordinary activities before income tax includes the following items of revenue and expense:

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
(a) Operating revenue				
Sales revenue:				
Sale of goods	24,665	25,950	-	-
Interest revenue:				
Other entities	13	18	-	9
Dividends received:				
Wholly owned controlled entities	-	-	-	1,531
Foreign exchange gain	639	-	-	-
Research & Development Start Grant income	1,009	-	-	-
Other	229	113	903	-
	<u>26,555</u>	<u>26,081</u>	<u>903</u>	<u>1,540</u>
(b) Non Operating revenue				
Proceeds from sale of assets (note 7)				
Property, plant and equipment	3	47	-	-
	<u>3</u>	<u>47</u>	<u>-</u>	<u>-</u>
	<u>26,558</u>	<u>26,128</u>	<u>903</u>	<u>1,540</u>
(c) Expenses				
Cost of sales	15,295	14,633	-	-
Borrowing costs				
Interest:				
Finance leases	10	21	-	-
Other entities	138	195	-	-
	<u>148</u>	<u>216</u>	<u>-</u>	<u>-</u>
Net bad and doubtful debts – other entities	80	-	-	-
Depreciation of non-current assets:				
Property, plant and equipment	434	305	-	-
Amortisation of non-current assets:				
Goodwill	1,105	1,105	-	-
Other intangibles	9	8	-	-
	<u>1,114</u>	<u>1,113</u>	<u>-</u>	<u>-</u>
Total depreciation and amortisation of non-current assets	1,548	1,418	-	-
Plant & equipment:				
WDV of plant and equipment disposed of	3	58	-	-
Current assets:				
WDV of mining lease bonds disposed of	-	8	-	8
Research and development costs written off	3,746	1,833	-	-
Net transfers to provisions:				
Warranty	95	(4)	-	-
Net foreign exchange loss	-	106	-	-
Legal fees	50	105	-	-
Provision for employee entitlements	34	52	-	-
Operating lease minimum lease payments	274	53	-	-
Superannuation contributions	414	404	-	-

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

3. Income Tax

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

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(Loss)/Profit from ordinary activities	(376)	2,216	257	1,532
Income tax expense/(benefit) calculated at 30% of operating profit/(loss)	(113)	665	77	460
Permanent differences:				
Amortisation of intangible assets	334	334	-	-
Effect of higher tax rates of tax on overseas income	(155)	(49)	-	-
Deductible equity raising costs	(94)	(94)	(94)	(94)
Research & development tax concession	(56)	(111)	-	-
Other permanent differences	(18)	22	-	(458)
	11	102	(94)	(552)
Over provision of income tax in previous year	(68)	(183)	(47)	(103)
	(57)	(81)	(141)	(655)
Income tax expense/(benefit) attributable to ordinary activities	(170)	584	(64)	(195)

Tax Consolidation System

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. The company and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and the directors of these entities consider it likely that they will elect to implement the tax consolidation system in due course.

However, at the date of this report the directors have not yet finalised an assessment of the financial effect that implementation may have on the company and the consolidated entity. Accordingly, the directors have not made a final formal decision whether or not to implement the tax consolidation system, and if so, from which date implementation would occur.

As a result, only the financial effects of the mandatory aspects of the enabling legislation has been recognised in the financial statements and no adjustment has been made to recognise the financial effects that may result from the implementation of the tax consolidation system.

In the event that the tax consolidation system is implemented, the company is likely to become the 'head entity' of the tax-consolidated group, and is likely to agree to compensate each wholly-owned subsidiary for the carrying amount of its deferred tax balances.

4. Directors' and Executives' Remuneration

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

D.J. Lindh (Chairman, non-executive)
V.K. Previn (Managing Director)
K.R Johnson (Non-executive)
P Falzon (Non-executive)

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

K. McGuinness (Chief Financial Officer)
M. Fullgrabe (General Manager – retired 30 May 2004)
A. Kalatzis (Business Development Manager)
B. Swaim (President – Laserex Systems Inc, US)
J. Orkiszewski (President – ResDev Labs Inc, US)
Y. Isoda (President – Amphi Medical Corp, Japan)

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

2004	Primary			Post Employment			Equity	Other benefits	Total \$
	Salary & fees \$	Bonus \$	Non-Monetary \$	Super-annuation \$	Prescribed Benefits \$	Other \$	Options \$		
Specified Directors									
D J Lindh	60,000	-	-	5,400	-	-	-	40,000	105,400
V K Previn	237,550	-	18,126	20,925	-	-	-	-	276,601
K R Johnson	50,000	-	-	-	-	-	1,500	-	51,500
P Falzon	34,515	-	-	-	-	-	3,000	-	37,515
	382,065	-	18,126	26,325	-	-	4,500	40,000	471,016

2004	Primary			Post Employment			Equity	Other benefits	Total \$
	Salary & fees \$	Bonus \$	Non-Monetary \$	Super-annuation \$	Prescribed Benefits \$	Other \$	Options \$		
Specified Executives									
K McGuinness	123,728	-	20,124	12,535	-	-	3,000	-	159,387
M Fullgrabe	127,271	-	-	12,542	-	12,083	-	-	151,896
A Kalatzis	120,091	-	6,152	11,149	-	-	2,000	-	139,392
B Swaim	210,493	22,358	26,144	32,814	-	-	1,500	-	293,309
J Orkizewski	214,169	-	10,660	6,465	-	-	900	-	232,194
Y Isoda	197,641	-	-	4,798	-	-	-	91,524	293,963
	993,393	22,358	63,080	80,303	-	12,083	7,400	91,524	1,270,141

Further details of the options issued are contained in notes 5 and 35 to the financial statements.

Contracts for Services

D J Lindh acts as a consultant to the consolidated entity in providing corporate, strategic and legal services in addition to services provided as a director, and receives a retainer of \$40,000 per annum for these services (included above in 'Other benefits').

5. Employee Share Option Plan

The consolidated entity has an ownership based remuneration 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 within three years of grant date or when an employee ceases employment with the company, whichever is the earlier.

Share Option Plan	2004 No.	2003 No.
Balance at beginning of financial year (i)	781,835	126,000
Granted during the financial year (ii)	868,667	739,835
Exercised during the financial year (iii)	-	(19,000)
Lapsed during the financial year (iv)	(185,167)	(65,000)
Balance at end of the financial year (v)	1,465,335	781,835

(i) Balance at the beginning of Financial Year

2003 Options – Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(1) Issued 25 March 2002	83,000	01/03/02	25/07/04	\$0.50
(2) Issued 15 January 2003	698,835	26/11/02	25/11/05	\$0.50
Total	781,835			

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

Employee and executive share options carry no rights to dividends and no voting rights.

In accordance with the terms of the employee and executive share scheme, options issued during the year ended 30 June 2004 vest at their day of issue.

In accordance with the terms of the employee and executive share option scheme, options may be exercised at any time from the date of their issue to the date of their expiry.

(ii) Granted during the Financial Year

2004 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price	Fair Value Received
(3) Issued 15 January 2004	868,667	01/12/03	30/11/06	\$0.50	Nil

2003 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price	Fair Value Received
(3) Issued 15 January 2003	739,835	26/11/02	25/11/05	\$0.50	Nil

Employee and executive share options carry no rights to dividends and no voting rights.

In accordance with the terms of the employee and executive share scheme, options issued during the year ended 30 June 2004 vest at their day of issue.

(iii) Exercised during the Financial Year

2004 Option – Series	No. of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price	No. of Shares Issued	Fair Value Received	Fair Value Per Share at Date of Issue
Nil	Nil					Nil		

2003 Option – Series	No. of Options Exercised	Grant Date	Exercise Date	Expiry Date	Exercise Price	No. of Shares Issued	Fair Value Received	Fair Value Per Share at Date of Issue
(2) Issued 25 March 2002	19,000	01/03/02	July 2002 - June 2003	25/01/04	\$0.50	19,000	\$9,500	Between \$0.36 and \$1.04

Fair value of consideration received is measured as the nominal value of cash receipts on conversion. The fair value of shares at the date of their issue is measured as the market value at close of trade on the date of their issue.

(iv) Lapsed during the Financial Year

The following equity based instruments issued to employees have lapsed during the reporting period:

Options – Series	2004 No.	2003 No.
Series (1) Issued 25 March 2002	14,000	24,000
Series (2) Issued 15 January 2003	106,167	41,000
Series (3) Issued 15 January 2004	65,000	-
Total	185,167	65,000

Options (1), (2) and (3) are options to purchase ordinary shares for \$0.50 per share at any time from the date of their issue to the date of expiry.

The options carry no voting or dividend rights.

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Notes to the Financial Statements for the year ended 30 June 2004

(v) Balance at End of Financial Year

2004 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(1) Issued 25 March 2002	69,000	01/03/02	25/07/04	\$0.50
(2) Issued 15 January 2003	592,668	26/11/02	25/11/05	\$0.50
(3) Issued 15 January 2004	803,667	01/12/03	30/11/06	\$0.50
Total	1,465,335			

2003 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(1) Issued 25 March 2002	83,000	01/03/02	25/07/04	\$0.50
(2) Issued 15 January 2003	698,835	26/11/02	25/11/05	\$0.50
Total	781,835			

Employee and executive share options carry no rights to dividends and no voting rights.

In accordance with the terms of the employee and executive share scheme, options issued during the years ended 30 June 2002, 2003 and 2004 vest at their day of issue.

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

The amounts are disclosed in remuneration in respect of the financial year in which the entitlement was earned.

Consideration received on the exercise of executive options is recognised in contributed equity. During the financial year \$Nil (2003: \$Nil) was recognised in contributed equity arising from the exercise of employee and executive options.

Consolidated		Company	
2004	2003	2004	2003
\$	\$	\$	\$

6. Remuneration of Auditors

Auditor of the parent entity

Auditing the financial report	59,000	51,000	10,000	-
Other services	-	-	-	-
	<u>59,000</u>	<u>51,000</u>	<u>10,000</u>	<u>-</u>

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
7. Sales of Assets				
Sales of assets in the ordinary course of business have given rise to the following profits and losses:				
Net losses				
Investments – Mining assets	-	8	-	8
Property, plant and equipment	-	13	-	1
	-	21	-	9
Net profits				
Property, plant and equipment	-	2	-	-
8. Current Receivables				
Trade receivables	2,940	3,227	-	-
Allowance for doubtful debts	(105)	(105)	-	-
	2,835	3,122	-	-
Goods and services tax (GST) recoverable	77	36	-	-
Sundry deposits recoverable	266	4	-	-
Other receivables	11	19	-	-
Deposit for sale of Mining assets	-	18	-	-
Foreign currency hedge receivable	108	427	-	-
Receivable from controlled entity	-	-	4,529	4,263
	3,297	3,626	4,529	4,263
9. Current Inventories				
Raw materials – at net realisable value	359	203	-	-
Raw materials – at cost	2,972	3,228	-	-
WIP – at net realisable value	99	86	-	-
WIP – at cost	1,779	1,499	-	-
Finished goods – at net realisable value	230	162	-	-
Finished goods – at cost	3,959	2,835	-	-
	9,398	8,013	-	-
10. Other Current Assets				
Prepayments	222	122	-	-
11. Other Non-Current Financial Assets				
At cost				
Investment in controlled entity	-	-	24,231	24,099

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

12. Property, Plant and Equipment

	Consolidated				TOTAL \$'000
	Freehold Land \$'000	Buildings \$'000	Plant & Equipment \$'000	Equipment under finance lease \$'000	
Gross carrying amount					
Balance at 30 June 2003	740	1,912	1,975	80	4,707
Additions	-	29	1,189	139	1,357
Net foreign currency exchange differences arising on the translation of financial statements of foreign operations	-	-	10	-	10
Disposals	-	-	(6)	-	(6)
Balance at 30 June 2004	740	1,941	3,168	219	6,068
Accumulated depreciation/ amortisation					
Balance at 30 June 2003	-	(85)	(897)	(41)	(1,023)
Depreciation expense	-	(48)	(373)	(13)	(434)
Net foreign currency exchange differences arising on the translation of financial statements of foreign operations	-	-	(3)	-	(3)
Disposals	-	-	3	-	3
Balance at 30 June 2004	-	(133)	(1,270)	(54)	(1,457)
Net book value					
As at 30 June 2003	740	1,827	1,078	39	3,684
As at 30 June 2004	740	1,808	1,898	165	4,611

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Buildings	48	48	-	-
Plant and equipment	373	245	-	-
Equipment under finance lease	13	12	-	-
	434	305	-	-

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
13. Intangibles				
Goodwill	22,108	22,108	-	-
Accumulated amortisation	(3,264)	(2,159)	-	-
	<u>18,844</u>	<u>19,949</u>	<u>-</u>	<u>-</u>
Patents, trademarks and licenses	88	65	-	-
Accumulated amortisation	(67)	(58)	-	-
	<u>21</u>	<u>7</u>	<u>-</u>	<u>-</u>
Organisational costs	10	-	-	-
Accumulated amortisation	-	-	-	-
	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>18,875</u>	<u>19,956</u>	<u>-</u>	<u>-</u>
Aggregate amortisation allocated, whether recognised as an expense or recognised as part of the carrying amount of other assets during the year:				
Goodwill	1,105	1,105	-	-
Patents, trademarks and licenses	9	8	-	-
Organisational costs	-	-	-	-
	<u>1,114</u>	<u>1,113</u>	<u>-</u>	<u>-</u>

Assumptions made in respect of recoverable amount

In determining recoverable amount the expected future cashflows associated with the business, for the remaining seventeen years over which it is to be amortised, have been calculated based on current and future forecasts, and have not been discounted to present value.

14. Deferred Tax Assets

Future income tax benefit

Tax losses - revenue	576	-	-	-
Timing differences	579	540	17	92
	<u>1,155</u>	<u>540</u>	<u>17</u>	<u>92</u>
Future income tax benefit has been reduced by the provision for deferred income tax attributable to timing differences by the amount of:				
	<u>11</u>	<u>5</u>	<u>-</u>	<u>-</u>

15. Assets Pledged As Security

All assets of the consolidated entity have been pledged as security for liabilities, as disclosed in notes 17 and 21 to the financial statements.

16. Current Payables

Trade payables	3,119	2,072	-	-
Accruals	853	603	-	-
Payable to directors	211	179	-	-
Other payables	193	311	-	-
	<u>4,376</u>	<u>3,165</u>	<u>-</u>	<u>-</u>

17. Current Interest Bearing Liabilities

Secured:

Finance advance	37	30	-	-
Finance lease liabilities (note 32)	55	43	-	-
	<u>92</u>	<u>73</u>	<u>-</u>	<u>-</u>

The secured interest bearing liabilities are secured by the assets under finance.

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
18. Current Tax Assets/Liabilities				
Income tax payable	396	-	-	-
Income tax refundable	-	75	-	2
19. Current Provisions				
Employee entitlements (note 23)	503	472	-	-
Warranty (note 24)	174	134	-	-
	<u>677</u>	<u>606</u>	<u>-</u>	<u>-</u>
20. Other Current Liabilities				
Unearned income	4	21	-	-
Deferred gain on foreign currency contracts	-	427	-	-
	<u>4</u>	<u>448</u>	<u>-</u>	<u>-</u>
21. Non-Current Interest-Bearing Liabilities				
Secured:				
Commercial bill for purchase of Land and Buildings	2,000	2,000	-	-
Finance lease liabilities (note 32)	145	87	-	-
	<u>2,145</u>	<u>2,087</u>	<u>-</u>	<u>-</u>
The Commercial Bill is secured by the land and buildings under finance. The facility rolls every 30 days, and is due to expire in September 2010.				
22. Non-Current Provisions				
Employee entitlement (note 23)	146	106	-	-
23. Employee Entitlements				
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:				
Current (note 19)	503	472	-	-
Non-current (note 22)	146	106	-	-
Accrued wages and salaries ⁽ⁱ⁾	151	157	-	-
	<u>800</u>	<u>735</u>	<u>-</u>	<u>-</u>
Number of employees at end of financial year	137	106	-	-
24. Provisions				
Warranty				
Balance at beginning of year	134	184	-	-
Additional provisions recognised	182	145	-	-
Payments made	(55)	(46)	-	-
Reductions resulting from the re-measurement of the estimate future sacrifice	(87)	(149)	-	-
Balance at end of year	<u>174</u>	<u>134</u>	<u>-</u>	<u>-</u>

⁽ⁱ⁾ Accrued wages and salaries are included in the current trade payables balance as disclosed in Note 16 to the financial report.

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

The provision for warranty claims represents the directors' best estimate of the future sacrifice of economic benefits that will be required under the consolidated entity's 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.

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

25. Contributed Equity

Contributed equity

61,236,853 fully paid ordinary shares (2003: 61,236,853)	27,985	27,985	27,984	27,984
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	Consolidated			
	2004		2003	
	No. 000	\$'000	No. 000	\$'000
Fully paid ordinary share capital				
Balance at beginning of financial year	61,237	27,985	61,091	32,280
Shares issued during the year:				
Shares issued at \$0.50	-	-	146	73
Transfer from Retained Losses ⁽ⁱ⁾	-	-	-	(4,366)
Costs of share issues	-	-	-	(2)
Balance at end of financial year	61,237	27,985	61,237	27,985

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

Share Options

11,564,398 (2003: 11,564,398) options exercisable at \$0.50 each and expiring 25 July 2004 were on issue and were not exercised at the end of the year.

Nil (2003: 2,793,853) The secondary options exercisable at \$1.00 each lapsed at their expiry date of 31 May 2004 and were no longer on hand at the end of the year.

69,000 (2003: 83,000) unquoted employee options exercisable at \$0.50 each and expiring 25 July 2004 were issued and were not exercised at the end of the year.

592,668 (2003: 698,835) unquoted employee options exercisable at \$0.50 each and expiring 25 November 2005 were issued and were not exercised at the end of the financial year.

803,667 (2003: Nil) unquoted employee options exercisable at \$0.50 each and expiring 30 November 2006 were issued and were not exercised at the end of the financial year.

Further details of the Employee Share Option Plan are contained in note 5 to the financial statements.

⁽ⁱ⁾ During the prior year, the directors resolved, pursuant to section 258F of the Corporations Act 2001 and without the cancellation of any shares in the Company, to reduce the Company's share capital by canceling paid up capital in the amount of \$4,365,854, as this amount reflected a loss relating to the Company's prior business as a jade miner.

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

26. Reserves

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
(a) Reserves comprise				
Foreign currency translation	(517)	(611)	-	-
General profit reserve	3,216	3,216	472	472
	<u>2,699</u>	<u>2,605</u>	<u>472</u>	<u>472</u>
(b) Movements in reserves				
General profit reserve				
Balance at beginning of financial year	3,216	3,115	472	-
Transfer from retained profits	-	1,632	-	2,003
Dividend paid	-	(1,531)	-	(1,531)
Balance	<u>3,216</u>	<u>3,216</u>	<u>472</u>	<u>472</u>
Foreign currency translation reserve				
Balance at beginning of financial year	(611)	(223)	-	-
Translation of foreign operations	94	(388)	-	-
Balance	<u>(517)</u>	<u>(611)</u>	<u>-</u>	<u>-</u>
Balance of reserves at end of financial year	<u>2,699</u>	<u>2,605</u>	<u>472</u>	<u>472</u>

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in note 1(g).

27. Retained profits/(accumulated losses)

Balance at beginning of financial year	-	(4,366)	-	(4,090)
Transfer to share capital	-	4,366	-	4,366
Net profit/(loss)	(206)	1,632	321	1,727
Transfer to general profit reserve	-	(1,632)	-	(2,003)
Balance at end of financial year	<u>(206)</u>	<u>-</u>	<u>321</u>	<u>-</u>

28. Dividends

	2004		2003	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	2.5	1,531
Consolidated				
Company				
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Adjusted franking account balance (tax paid basis)	2,629	2,294	24	25

Ellex Medical Lasers Limited
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	Consolidated	
	2004	2003
	Cents per share	Cents per share
29. Earnings Per Share		
Basic earnings per share	(0.3)	2.7
Diluted earnings per share	(0.3)	2.7

	2004	2003
	\$'000	\$'000

Basic earnings per share

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

Earnings	(206)	1,632
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Weighted average number of ordinary shares

61,236,853	61,199,771
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Diluted earnings per share

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

Earnings	(206)	1,632
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Weighted average number of ordinary shares and potential ordinary shares

61,236,853	61,199,771
------------	------------

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	2004	2003
	No. '000	No. '000
Ordinary Options	11,564	11,564
Secondary Options	-	2,794
Unquoted Employee Options	1,465	782

30. Commitments for Expenditure

(a) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 32 to the financial statements.

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

31. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition \$'000
Controlled entities				
ResDev Labs Inc	Research & Development	6 August 2003	100%	-
Amphi Medical Corporation	Distribution	12 September 2003	100%	132

This acquisition of businesses note relates to the incorporation of new wholly-owned subsidiaries of the consolidated group. The cost of acquisition comprises payment for share capital. The share capital for ResDev Labs Inc was less than \$1,000.

Consolidated		Company	
2004	2003	2004	2003
\$'000	\$'000	\$'000	\$'000

32. Leases

Finance Leases

Leasing arrangements

Finance leases relate to motor vehicles and plant and equipment with lease terms of between 3 to 5 years. The consolidated entity has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

Finance lease liabilities

No later than 1 year	68	51	-	-
Later than 1 year and not later than 5 years	159	94	-	-
Minimum finance lease payments	227	145	-	-
Less future finance charges	(27)	(15)	-	-
Finance lease liabilities	200	130	-	-
Included in the financial statements as:				
Current interest bearing liabilities (note 17)	55	43	-	-
Non-current interest bearing liabilities (note 21)	145	87	-	-
	200	130	-	-

Operating Leases

Leasing arrangements

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

Non-cancellable operating leases

Not longer than 1 year	371	43	-	-
Longer than 1 year and not longer than 5 years	212	-	-	-
Longer than 5 years	-	-	-	-
	583	43	-	-

Ellex Medical Lasers Limited
Notes to the Financial Statements for the year ended 30 June 2004

33. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2004 %	2003 %
Parent Entity Ellex Medical Lasers Limited	Australia		
Controlled Entities			
Ellex Medical Pty Ltd	Australia	100	100
Ellex R& D Pty Ltd	Australia	100	100
Laserex Systems Inc	USA	100	100
ResDev Labs Inc	USA	100	-
Amphi Medical Corporation	Japan	100	-

34. Segment Information

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

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

Geographical Segments	Revenue from External Customers		Segment Assets		Acquisition of Segment Assets	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Australia*	3,190	828	31,717	34,262	698	467
USA	17,471	17,248	4,085	2,813	473	17
Europe	4,086	4,275	-	-	-	-
Japan	704	2,095	2,512	-	186	-
Asia	851	1,231	-	-	-	-
Other	256	451	-	-	-	-
	26,558	26,128	38,314	37,075	1,357	484

*Revenue for Australia in 2004 includes a Research & Development Grant of \$1,009,000, for which there was no revenue in 2003.

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

- Australia – the consolidated entity manufactures all its products in Australia and sells some products in Australia.
- USA – the consolidated entity has a distribution office based in Minneapolis, USA and sells a range of its products in the USA.
- Europe – the consolidated entity sells a broad range of its products in Europe and the Middle East.
- Japan – during the year, the consolidated entity established a distribution office based in Osaka, Japan and sells a range of its products in Japan.
- Asia – the consolidated entity sells a broad range of its products in Asia.