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		X	**30 JUNE 2005**

For announcement to the market

Extracts from this report for announcement to the market. $A'000

Revenues from ordinary activities	up	7.1%	to	28,456
Profit (loss) from ordinary activities after tax attributable to members before goodwill amortisation	down	99.6%	to	3
Profit (loss) from ordinary activities after tax attributable to members	down	435.0%	to	(1,102)
Profit (loss) from extraordinary items after tax attributable to members	gain (loss) of	-		-
Net profit (loss) for the period attributable to members	down	435.0%	to	(1,102)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only)* Interim dividend *(Half yearly report only)*	Nil ¢	Nil %
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:

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. The results for the year were in line with market guidance.

During the year, the company continued to invest in its new direct distribution channel in Japan. This business grew quarter on quarter throughout the year. Directors expect this business to at least break-even in 2005/2006 and to make a positive contribution to profit in the years following.

Research and Development spend for the year continued at a high rate as the group fast tracked new products to market. The Solitaire photocoagulator, the most significant project in terms of spend and resources entered pilot production in March 2005. With the release of this product, a decision was made in June 2005 to close the US R & D centre in California.

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

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	15.2¢	17.1 ¢

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)

- [x] 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

Financial report for the year ended 30 June 2005

Financial Report for the financial year ended 30 June 2005

The Directors present their report together with the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 and the auditor's report thereon.

Contents:

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

Board of Directors and its Committees

Role of the Board

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

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

Board Process

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

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

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

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

Composition of the Board

The names of the directors of the company in office at the date of this Statement are set out in the directors' report on page 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 non-executive director as Chairman
- A majority of non-executive directors, with at least 50% being independent non-executive directors
- Enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- At each Annual General Meeting one-third of the directors (except for the Managing Director/Chief Executive Officer) 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.

An independent director is a director who is not a member of management (a non-director) and who:

- Is not a substantial shareholder of the company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the company

- Has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment

- Within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member

- Is not a significant supplier or customer of the company or another group member, or an officer of or otherwise associated, directly or indirectly with a significant supplier or customer

- Has no material contractual relationship with the company or another group member, other than as a director of the company

- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

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 entity are set out in Note 34 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 entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations.

Director Dealings in Company Shares

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

- For the period from 31 December until release of the half year result to the Australian Stock Exchange ("ASX"), and from 30 June to the release of the Company's annual results to the ASX.

- Whilst in possession of price sensitive information.

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

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 entity's expense. A copy of any advice received by the director is made available to all other members of the Board.

Remuneration Committee

The Board of Directors acts as the Remuneration Committee and reviews remuneration packages and policies applicable to the Chief Executive Officer, senior executives and directors themselves. The Board evaluates the performance of the Chief Executive Officer and monitors management succession planning. The Board is also responsible for share option schemes, policies and professional indemnity and liability insurance policies applicable. Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. The Board obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

Director's base fees are presently $40,000 per annum. The Chairman receives the base fee plus $10,000 per annum. 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 does not have a formal Board Retirement scheme.

Further details of directors' remuneration, superannuation and retirement payments are set out in the directors' report and Note 4 to the financial statements.

Audit Committee

The Audit Committee has a documented Charter, approved by the Board. All members must be non-executive directors or independent consultants with a majority being independent. The Chairman may not be the Chairman of the Board. A replacement Chairman of the Audit Committee has not yet been appointed. The Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

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

Mr K R Johnson (Chairman of Audit Committee) (resigned 19 April 2005)
Mr D Lindh – Non-Executive Director (resigned 22 July 2005)
Mr V Previn – Non-Executive Director
Mr A Sundich – Non-Executive Director

The external auditors, the Chief Executive Officer and Chief Financial Officer, 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 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
- Reviewing the Company's policies and procedures for the transition to the Australian equivalents to International Financial Reporting Standards for reporting periods beginning on or after 1 July 2005

- 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 compliance with the Company's Fraud Control Plan and prompt and appropriate rectification of any deficiencies or breakdowns identified

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

- Continuous disclosure – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the ASX and post them on the Company's web site. The Board of Directors and the Chief Financial Officer/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 Managing Director and Chief Financial Officer ensure compliance with financial controls and procedures including information systems controls detailed in procedures manuals.

- Functional speciality reporting – Key areas subject to regular reporting to the Board include Treasury and Derivatives Operations and Tax Compliance matters.

- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Internal Audit

The Company 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 9002

The consolidated entity strives to ensure that its products are of the highest standard. Towards this aim it has undertaken a program to achieve AS/NZS ISO 9002 accreditation for each of its business segments.

Business Risk Management

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

The consolidated entity'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. The consolidated entity's management of environmental risk is discussed under "Environmental Regulation" within the directors' report.

Further details of the company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in Note 36 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.

Ethical Standards

The consolidated entity has advised each director, manager and employee that they must comply with the Corporate Governance Policy which outlines the 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 entity. 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.

The Role of Shareholders

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

- The full annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity 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.

- Proposed major changes in the consolidated entity 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

All documents that are released publicly are made available on the consolidated entity's internet web site at www.laserexmedical.com.au.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity'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 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

(a) Directors

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

V Previn (Chairman – previously Managing Director)
Victor Previn is 47 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. He is currently a non-executive Technical Director. He has considerable experience in the ophthalmic laser industry and was one of the original founders and shareholders of Ellex.

P J Falzon (Chief Executive Officer)
Peter Falzon is 42 years old and was appointed a director on 26 November 2002. Peter has considerable experience in business development and global distribution of ophthalmic products having worked as a senior executive with Coherent in the US and Japan.

A M Sundich (Non-Executive)
Alex Sundich is 41 years old and was appointed a Director on 22 July 2005. Alex is the Chief Financial Officer of Record investments Ltd, an ASX listed company with market capitalisation of over one billion dollars. Prior to this, Alex was an investment banker involved in mergers & acquisitions and capital raisings, having worked in Australia and the US.

Dr K R Johnson (Non-Executive, resigned 19 April 2005)
K R Johnson is 58 years old and was appointed a director on 30 April 2003. He has significant experience in growing international companies and international distribution as the founder and Managing Director of Maptek, a software company and supplier of computer applications to the mining industry.

D J Lindh (Non-Executive, resigned 22 July 2005)
David Lindh is 60 years old and was reappointed as a director at the annual general meeting held 27 October 2003, having previously been a Director since 4 April 2000. He has over 30 years experience as a commercial lawyer and company director, and is a director of a number of public and private companies.

(b) Company Secretary

K McGuinness
Kevin McGuinness is 38 years old and has been the Chief Financial Officer and Company Secretary since October 2002. He is a Chartered Accountant with 7 years experience with Deloitte Touche Tohmatsu in both Australia and the UK and over 16 years senior financial management experience of public and private companies.

(c) Principal Activities

The consolidated entity's principal activities have been the development, manufacture and distribution of medical laser equipment for application in ophthalmic procedures.

(d) Review and Results of Operations

The consolidated loss for the year after income tax was $856 thousand compared to a loss of $206 thousand for 2003/2004.

The consolidated net profit pre goodwill amortisation for the year after income tax was $3 thousand compared to a profit of $899 thousand for 2003/2004.

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.

During the year, the company continued to invest in its new direct distribution channel in Japan. This business grew quarter on quarter throughout the year. Directors expect this business to at least break-even in 2005/2006 and to make a positive contribution to profit in the years following.

Research and Development spend for the year continued at a high rate as the group fast tracked new products to market. The Solitaire photocoagulator, the most significant project in terms of spend and resources entered pilot production in March 2005. With the release of this product, a decision was made in June 2005 to close the US R & D centre in California to enable the group to return to more normal levels of R & D spend going forward.

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

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

(e) State of Affairs

In the opinion of the Directors, there were no significant changes to the state of affairs of the consolidated entity that occurred during the financial year other than those referred to in the financial statements or notes thereto.

(f) Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per Share	Total Amount $'000	Franked/ Unfranked	Date of Payment
In respect of the previous financial year:				
- Final – Ordinary	Nil	Nil	N/A	N/A
Dealt with in this financial report as:				
- Dividends	Nil	Nil	N/A	N/A

(g) Shares and Options

(1) Shares and options issued during the year are outlined in Note 25 to the financial statements.

(2) Directors and Employees Share Option Scheme

On 9 July 2001, a Directors and Employees Share Option Plan was approved at an extraordinary meeting of shareholders.

There were no options issued to Directors and Employees during or since the year ended 30 June 2005.

(h) Subsequent Events

Apart from the other matters discussed elsewhere in this Annual Report, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2005 that has significantly affected or may significantly affect the operations of the consolidated entity in subsequent financial years.

(i) Future Developments

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

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

(j) Legal Matters

There are no legal matters with any potential material impact on the financial report.

(k) Meetings of Directors

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

	Regular Meetings		**Audit Committee**	
	A	B	A	B
D J Lindh	12	12	3	3
V Previn	12	12	-	-
P Falzon	10	12	-	-
K R Johnson	9	9	3	3

A - Number of meetings attended
B - Number of meetings held during the time the Director held office

(l) Directors' Interests

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

	Interests of Directors		**Interests of Director Related Entities**	
	Fully Paid Ordinary Shares	Options	Fully Paid Ordinary Shares	Options
V Previn	-	-	3,266,034	-
P Falzon	620,000	150,000	-	-
A Sundich	1,000,000	-	1,350,501	-

(m) Directors’ & Executives’ Remuneration

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

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

Remuneration packages contain the following key elements:

(a) Salary/fees;
(b) Benefits - including the provision of motor vehicle, superannuation and health benefits; and
(c) Incentives schemes - including performance related bonuses and share options under the Directors' and Employee Share Option plan as disclosed in note 4 & 5 to the financial statements.
(d) All Directors' options lapsed during the current financial year.

Name		***Salary/ Fees***	***Consultancy Fees***	***Benefits***	***Incentive Schemes***	***Total***
DJ Lindh	Non Executive Director	52,500	40,000	4,725	-	97,225
V Previn	Technical Director	192,461	-	39,802	-	232,263
P Falzon	Chief Executive Officer	101,122	-	12,300	-	113,422
KR Johnson	Non Executive Director	33,333	-	3,000	-	36,333
	Total	**379,416**	**40,000**	**59,827**	**-**	**479,243**

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

Name		***Salary/ Fees***	***Consultancy Fees***	***Benefits***	***Incentive Schemes***	***Total***
V Previn	Technical Director	192,461	-	39,802	-	232,263
B Swaim	President – Laserex Medical Inc- US	192,112	-	49,012	-	241,124
J Orkiszewski	President – Resdev Labs Inc – US	217,506	-	35,511	-	253,017
Y Isoda	President – Laserex Corp – Japan	248,484	-	18,139	138,219*	404,842
C Warren	Greater Europe Sales Manager	228,736	-	-	-	228,736
	Total	**1,079,299**	**-**	**142,464**	**138,219**	**1,359,982**

Remuneration to Directors and Executives includes performance based elements as determined by the Board. Key Performance Indicators are based on profit and/or revenue as determined by the Board.

During the year a performance related payment was made to the President of the Japanese subsidiary. The incentive, which comprised entirely of additional salary, was determined quarterly based on agreed criteria relating to sales and profitability as well as achieving key milestones in the development of the Japanese business which was established in 2003. In addition a one time retention payment of $50,000 was paid in the financial period.

No other incentive payments were made during the year as performance targets, particularly those relating to revenue and profit were not achieved.

(n) Directors' and Auditors' Indemnification

- On 9 July 2001, at an Extraordinary General Meeting, the company passed a resolution to adopt a Deed of Access and Indemnity for the current directors.

- On 30 January 2003 the Company signed a Deed of Access and Indemnity for Directors' D J Lindh, V Previn, P Falzon and Company Secretary K McGuinness. A Deed of Assumption was executed for KR Johnson on 30 April 2003 in relation to the Deed of Access and Indemnity. A Deed of Assumption was executed for A Sundich on 22 July 2005 in relation to the Deed of Access and Indemnity.

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

(o) Auditor's Independence Declaration

The auditor's independence declaration is included on page 13.

(p) Rounding

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

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

On behalf of the directors

V. Pre

Victor Previn
Chairman

Adelaide, 7 September 2005

Deloitte

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The Board of Directors
Ellex Medical Lasers Limited
82 Gilbert Street
ADELAIDE SA 5000

7 September 2005

Dear Board Members

Ellex Medical Lasers Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Ellex Medical Lasers Limited.

As lead audit partner for the audit of the financial statements of Ellex Medical Lasers Limited for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S T Harvey
Partner
Chartered Accountants

Deloitte

Deloitte Touche Tohmatsu
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Independent audit report to the members of Ellex Medical Lasers Limited

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Ellex Medical Lasers Limited (the "Company") and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 15 to 46. The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Deloitte.

Audit Opinion

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

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S T Harvey
Partner
Chartered Accountants
Adelaide, 7 September 2005

Directors Declaration

The Directors declare that:

(a) The attached financial statements and notes thereto comply with Accounting Standards;
(b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the Consolidated Entity;
(c) In the Directors opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001;
(d) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
(e) The directors have been given the declarations required by s. 295A of the Corporations Act 2001.

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

On behalf of Directors

V. Previn

Victor Previn
Chairman
Adelaide, 7 September 2005.

Statement of Financial Performance for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
Revenue from ordinary activities		28,456	26,558	-	903
Raw materials and consumables used		(14,485)	(13,839)	-	-
Changes in labour and overhead		(64)	23	-	-
Employee benefits expense		(9,319)	(8,256)	-	-
Legal fees		(68)	(50)	-	-
Depreciation and amortisation expense		(1,681)	(1,548)	-	-
Advertising and marketing expenses		(802)	(531)	-	-
Borrowing costs		(394)	(148)	-	-
Insurance costs		(410)	(360)	-	-
Other expenses from ordinary activities		(2,420)	(2,225)	-	(646)
(Loss)/Profit from ordinary activities before income tax benefit/(expense)	2	(1,187)	(376)	-	257
Income tax benefit relating to ordinary activities	3	85	170	1,229	64
(Loss)/Profit from ordinary activities after related income tax benefit/(expense)		(1,102)	(206)	1,229	321
(Increase)/decrease in foreign currency translation reserve arising on translation of self-sustaining foreign operations	26	(386)	94	-	-
Total changes in equity other than those resulting from transactions with owners as owners		(1,488)	(112)	1,229	321
Earnings per share					
- Basic (cents per share)	29	(1.8)	(0.3)		
- Diluted (cents per share)	29	(1.8)	(0.3)		

Ellex Medical Lasers Limited
Statement of Financial Position as at 30 June 2005

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
Current assets					
Cash assets		-	756	-	-
Receivables	8	4,322	3,297	4,529	4,529
Inventories	9	10,759	9,398	-	-
Current tax assets	18	55	-	-	-
Other current assets	10	452	222	-	-
Total current assets		15,588	13,673	4,529	4,529
Non-current assets					
Other financial assets	11	-	-	24,231	24,231
Property, plant and equipment	12	4,470	4,611	-	-
Intangibles	13	17,768	18,875	-	-
Deferred tax assets	14	1,229	1,155	1,246	17
Total non-current assets		23,467	24,641	25,477	24,248
Total assets		39,055	38,314	30,006	28,777
Current liabilities					
Payables	16	3,858	4,376	-	-
Interest-bearing liabilities	17	3,126	92	-	-
Current tax liabilities	18	2	396	-	-
Provisions	19	785	677	-	-
Other	20	-	4	-	-
Total current liabilities		7,771	5,545	-	-
Non-current liabilities					
Interest-bearing liabilities	21	2,137	2,145	-	-
Provisions	22	157	146	-	-
Total non-current liabilities		2,294	2,291	-	-
Total liabilities		10,065	7,836	-	-
Net assets		28,990	30,478	30,006	28,777
Equity					
Contributed equity	25	27,985	27,985	27,985	27,985
Reserves	26	(903)	2,699	471	471
Retained profits/(accumulated losses)	27	1,908	(206)	1,550	321
Total equity		28,990	30,478	30,006	28,777

Notes to the financial statements are included on pages 20 to 46

	Note	Consolidated Inflows (Outflows) 2005 $'000	Consolidated Inflows (Outflows) 2004 $'000	Company Inflows (Outflows) 2005 $'000	Company Inflows (Outflows) 2004 $'000
Cash flows from operating activities					
Receipts from customers		27,154	26,673	-	-
Payments to suppliers and employees		(29,369)	(25,367)	-	-
Interest and bill discounts received		19	13	-	-
Interest and other costs of finance paid		(394)	(148)	-	-
Income tax refunds received		-	255	-	-
Income tax paid		(371)	(222)	-	-
Net cash (used in)/provided by operating activities	35(c)	(2,961)	1,204	-	-
Cash flows from investing activities					
Payment for purchase of intangibles		(1)	(33)	-	-
Payment for property, plant and equipment		(432)	(1,218)	-	-
Proceeds from sale of property, plant and equipment		3	3	-	-
Net cash used in investing activities		(430)	(1,248)	-	-
Cash flows from financing activities					
Repayment of borrowings		-	(261)	-	-
Proceeds from borrowings		1,536	-	-	-
Net cash provided by/(used in) financing activities		1,536	(261)	-	-
Net increase/(decrease) in cash held		(1,855)	(305)	-	-
Cash at the beginning of the financial year		756	1,059	-	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		(386)	2	-	-
Cash at the end of the financial year	35(a)	(1,485)	756	-	-

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. 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

(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 36 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 not deferred and are recognised in the Statement of Financial Performance.

(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.

(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.

Tax Consolidation

The directors have elected that the company and all of its wholly owned Australian resident entities would join a tax consolidated group as at 1 July 2004. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax-consolidated group are recognised in the financial statements of the parent entity.

As at the date of this report the tax-consolidated group has not entered into tax funding or tax sharing agreements.

(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 a time proportionate basis that takes into account the effective yield on the financial asset.

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

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

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

(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 32 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.

Warranty

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 entities liability.

(r) Receivables

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

(s) Recoverable Amount of Non-Current Assets

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

(t) Research and Development Costs

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with 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.

(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.

2. Profit/(Loss) from Ordinary Activities

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

	Consolidated		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
(a) Operating revenue				
Sales revenue:				
Sale of goods	26,939	24,665	-	-
Interest revenue:				
Other entities	19	13	-	-
Foreign exchange gain	83	639	-	-
Research & Development Start Grant income	1,410	1,009	-	-
Other	2	229	-	903
	28,453	26,555	-	903
(b) Non Operating revenue				
Proceeds from sale of assets (note 7)				
Property, plant and equipment	3	3	-	-
	3	3	-	-
	28,456	26,558	-	903
(c) Expenses				
Cost of sales	15,425	15,295	-	-
Borrowing costs				
Interest:				
Finance leases	17	10	-	-
Other entities	377	138	-	-
	394	148	-	-
Net bad and doubtful debts – other entities	17	80	-	-
Depreciation of non-current assets:				
Property, plant and equipment	573	434	-	-
Amortisation of non-current assets:				
Goodwill	1,107	1,105	-	-
Other intangibles	1	9	-	-
	1,108	1,114	-	-
Total depreciation and amortisation of non-current assets	1,681	1,548	-	-
Plant & equipment:				
WDV of plant and equipment disposed of	16	3	-	-
Research and development costs written off	3,854	3,746	-	-
Net transfers to provisions:				
Warranty	127	95	-	-
Legal fees	68	50	-	-
Provision for employee entitlements	48	34	-	-
Operating lease minimum lease payments	346	274		
Superannuation contributions	443	414	-	-

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	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
(Loss)/Profit from ordinary activities	(1,187)	(376)	-	257
Income tax expense/(benefit) calculated at 30% of operating profit/(loss)	(356)	(113)	-	77
Permanent differences:				
Amortisation of intangible assets	332	334	-	-
Effect of higher tax rates of tax on overseas income	(255)	(155)	-	-
Deductible equity raising costs	(94)	(94)	(94)	(94)
Research & development tax concession	(40)	(56)	-	-
Income tax related to Implementation of Tax Consolidation	(1,135)	-	(1,135)	-
Future income tax benefit in relation to tax losses not recognised	1,398	-	-	-
Other permanent differences	47	(18)	-	-
	253	11	(1,229)	(94)
Over provision of income tax in previous year	18	(68)	-	(47)
	271	(57)	(1,229)	(141)
Income tax expense/(benefit) attributable to ordinary activities	(85)	(170)	(1,229)	(64)
Deferred Tax Asset not brought to account as assets:				
Tax losses - Revenue	1,398	-	-	-
Tax Losses – Capital	186	186	186	186

The taxation benefits of tax losses and timing differences not brought into account will only be obtained if:

a) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
b) conditions for deductibility imposed by the law are complied with; and
c) no changes in legislation adversely affect the realisation of the benefit from the deductions.

Tax Consolidation System

As a consequence of the enactment of the Tax Consolidation legislation the Company, as the head entity in a tax-consolidated group, has decided to implement tax consolidation from 1 July 2004.

A number of assets have had their tax value reset under tax consolidation, resulting in deferred tax balances being recognised in the Company and consolidated entity. This has resulted in an increase in the deferred tax asset for both the Company and consolidated entity of $1.135 million attributable to future deductions.

In addition the consolidated entity has not brought to account a tax benefit of $3.834 million being an impact of tax consolidation pending future assessment of recoverability.

4. Directors' and Executives' Remuneration

The specified directors of Ellex Medical Lasers Limited during the year were:
D.J. Lindh (Chairman, non-executive) (resigned 22 July 2005)
V.K. Previn (Managing Director, resigned & became a non-executive Director 1 March 2005)
K.R Johnson (Non-executive, retired 19 April 2005)
P Falzon (Non-executive to 28 February 2005, Chief Executive Officer from 1 March 2005)

The specified executives of Ellex Medical Lasers Limited during the year were:
K. McGuinness (Chief Financial Officer)
A. Kalatzis (Business Development Manager)
B. Swaim (President – Laserex Medical Inc, US)
B. Potter (Operations Manager)
J. Orkiszewski (President – ResDev Labs Inc, US)
C. Warren (Greater Europe Sales Manager)
Y. Isoda (President – Laserex Corp, Japan)

2005	**Primary**			**Post Employment**			**Equity**		
	Salary & fees $	**Bonus $**	**Non-Monetary $**	**Super-annuation $**	**Prescribed Benefits $**	**Other $**	**Options $**	**Other benefits $**	**Total $**
Specified Directors									
D J Lindh	52,500	-	-	4,725	-	-	-	40,000	97,225
V K Previn	192,461	-	18,126	17,321	4,355	-	-	-	232,263
K R Johnson	33,333	-	-	3,000	-	-	-	-	36,333
P Falzon	101,122	-	7,027	5,273	-	-	-	-	113,422
	379,416	**-**	**25,153**	**30,319**	**4,355**	**-**	**-**	**40,000**	**479,243**

2005	**Primary**			**Post Employment**			**Equity**		
	Salary & fees $	**Bonus $**	**Non-Monetary $**	**Super-annuation $**	**Prescribed Benefits $**	**Other $**	**Options $**	**Other benefits $**	**Total $**
Specified Executives									
K McGuinness	148,796	-	20,124	13,392	2,644	-	-	-	184,956
A Kalatzis	124,974	-	14,118	11,248	12,058	-	-	-	162,398
B Swaim	192,112	-	20,195	28,817	-	-	-	-	241,123
B Potter	97,388	-	18,463	8,765	5,572	-	-	-	130,188
J Orkizsewski	217,506	-	24,636	10,875	-	-	-	-	253,017
C Warren	228,736	-	-	-	-	-	-	-	228,736
Y Isoda	248,484	138,219	18,139	-	-	-	-	-	404,842
	1,257,996	**138,219**	**115,675**	**73,097**	**20,274**	**-**	**-**	**-**	**1,605,260**

2004	**Primary**			**Post Employment**			**Equity**		
	Salary & fees $	**Bonus $**	**Non-Monetary $**	**Super-annuation $**	**Prescribed Benefits $**	**Other $**	**Options $**	**Other benefits $**	**Total $**
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**		
	Salary & fees $	**Bonus $**	**Non-Monetary $**	**Super-annuation $**	**Prescribed Benefits $**	**Other $**	**Options $**	**Other benefits $**	**Total $**
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 Orkizsewski	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 34 to the financial statements.

Contracts for Services
D J Lindh acted as a consultant to the consolidated entity in providing corporate, strategic and legal services in addition to services provided as a director, and received 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	**2005 No.**	**2004 No.**
Balance at beginning of financial year (i)	1,465,335	781,835
Granted during the financial year (ii)	-	868,667
Exercised during the financial year (iii)	-	-
Lapsed during the financial year (iv)	(302,000)	(185,167)
Balance at end of the financial year (v)	1,163,335	1,465,335

(i) Balance at the beginning 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			

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 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

2005 Option – Series	No. of Options	Grant Date	Expiry/ Exercise Date	Exercise price	Fair Value Received
Nil	Nil	N/A	N/A	Nil	Nil

2004 Option – Series	No. of Options	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

(iii) Exercised during the Financial Year

2005 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		

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		

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	2005 No.	2004 No.
Series (1)	Issued 25 March 2002	69,000	14,000
Series (2)	Issued 15 January 2003	20,000	106,167
Series (3)	Issued 15 January 2004	213,000	65,000
	Total	302,000	185,167

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.

(v) Balance at End of Financial Year

	2005 Options - Series	No.	Grant Date	Expiry/ Exercise Date	Exercise Price
(2)	Issued 15 January 2003	572,668	26/11/02	25/11/05	$0.50
(3)	Issued 15 January 2004	590,667	01/12/03	30/11/06	$0.50
	Total	1,163,335			

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 date 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 (2004: $Nil) was recognised in contributed equity arising from the exercise of employee and executive options.

	Consolidated		Company	
	2005 $	2004 $	2005 $	2004 $
6. Remuneration of Auditors				
Auditor of the parent entity				
Auditing the financial report	62,000	59,000	10,000	10,000
Other services	-	-	-	-
	62,000	59,000	10,000	10,000

	2005 $'000	2004 $'000	2005 $'000	2004 $'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				
Property, plant and equipment	12	-	-	-
	12	-	-	-
8. Current Receivables				
Trade receivables	3,676	2,940	-	-
Allowance for doubtful debts	(105)	(105)	-	-
	3,571	2,835	-	-
Goods and services tax (GST) recoverable	30	77	-	-
Sundry deposits recoverable	154	266	-	-
Other receivables	523	11	-	-
Foreign currency hedge receivable	44	108	-	-
Receivable from controlled entity	-	-	4,623	4,529
	4,322	3,297	4,623	4,529
9. Current Inventories				
Raw materials – at net realisable value	183	359	-	-
Raw materials – at cost	3,528	2,972	-	-
WIP – at net realisable value	8	99	-	-
WIP – at cost	1,260	1,779	-	-
Finished goods – at net realisable value	129	230	-	-
Finished goods – at cost	5,651	3,959	-	-
	10,759	9,398	-	-

	Consolidated		Company	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
10. Other Current Assets				
Prepayments	452	222	-	-
11. Other Non-Current Financial Assets				
At cost				
Investment in controlled entity	-	-	24,231	24,231

12. Property, Plant and Equipment

	Consolidated				
	Freehold Land $'000	**Buildings $'000**	**Plant & Equipment $'000**	**Equipment under finance lease $'000**	**TOTAL $'000**
Gross carrying amount					
Balance at 30 June 2004	740	1,941	3,169	219	6,069
Additions	-	7	425	75	507
Net foreign currency exchange differences arising on the translation of financial statements of foreign operations	-	-	(77)	-	(77)
Disposals	-	-	(17)	-	(17)
Balance at 30 June 2005	740	1,948	3,500	294	6,482
Accumulated depreciation/ amortisation					
Balance at 30 June 2004	-	(133)	(1,270)	(54)	(1,457)
Depreciation expense	-	(49)	(472)	(52)	(573)
Net foreign currency exchange differences arising on the translation of financial statements of foreign operations	-	-	16	-	16
Disposals	-	-	2	-	2
Balance at 30 June 2005	-	(182)	(1,724)	(106)	(2,012)
Net book value					
As at 30 June 2004	740	1,808	1,898	165	4,611
As at 30 June 2005	740	1,766	1,776	188	4,470

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

	Consolidated		Company	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Buildings	49	48	-	-
Plant and equipment	472	373	-	-
Equipment under finance lease	52	13	-	-
	573	434	-	-

13. Intangibles

	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
Goodwill	22,108	22,108	-	-
Accumulated amortisation	(4,371)	(3,264)	-	-
	17,737	18,844	-	-
Patents, trademarks and licenses	88	88	-	-
Accumulated amortisation	(67)	(67)	-	-
	21	21	-	-
Organisational costs	11	10	-	-
Accumulated amortisation	(1)	-	-	-
	10	10	-	-
	17,768	18,875	-	-
Aggregate amortisation allocated, whether recognised as an expense or recognised as part of the carrying amount of other assets during the year:				
Goodwill	1,107	1,105	-	-
Patents, trademarks and licenses	-	9	-	-
Organisational costs	1	-	-	-
	1,108	1,114	-	-

Assumptions made in respect of recoverable amount
In determining recoverable amount the expected future cashflows associated with the business, for the remaining sixteen 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

	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
Future income tax benefit				
Tax losses - revenue	459	576	476	-
Timing differences	770	579	770	17
	1,229	1,155	1,246	17
Future income tax benefit has been reduced by the provision for deferred income tax attributable to timing differences by the amount of:	71	11	71	-

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.

	Consolidated		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
16. Current Payables				
Trade payables	2,474	3,119	-	-
Accruals	965	853	-	-
Payable to directors	242	211	-	-
Other payables	177	193	-	-
	3,858	4,376	-	-

17. Current Interest Bearing Liabilities

Secured:				
Bank overdraft	1,485	-	-	-
Commercial Bills	1,500	-	-	-
Finance advance	68	37	-	-
Finance lease liabilities (note 31)	73	55	-	-
	3,126	92	-	-

The secured finance lease liabilities and Bank Loan (note 21) are secured by the assets under finance. Other interest bearing liabilities are secured by a floating charge over the consolidated entity's assets.

18. Current Tax Assets/Liabilities

Income tax payable	2	396	-	-
Income tax refundable	55	-	-	-

19. Current Provisions

Employee entitlements (note 23)	524	503	-	-
Warranty (note 24)	261	174	-	-
	785	677	-	-

20. Other Current Liabilities

Unearned income	-	4	-	-
	-	4	-	-

21. Non-Current Interest-Bearing Liabilities

Secured:				
Bank Loan for purchase of Land and Buildings	2,000	2,000	-	-
Finance lease liabilities (note 31)	137	145	-	-
	2,137	2,145	-	-

The Bank Loan 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)	157	146	-	-

	Consolidated		Company	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**

23. Employee Entitlements

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:				
Current (note 19)	524	503	-	-
Non-current (note 22)	157	146	-	-
Accrued wages and salaries[(i)]	92	151	-	-
	773	800	-	-
Number of employees at end of financial year	138	137	-	-

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

24. Provisions - Warranty

Balance at beginning of year	174	134	-	-
Additional provisions recognised	166	182	-	-
Payments made	(40)	(55)	-	-
Reductions resulting from the re-measurement of the estimate future sacrifice	(39)	(87)	-	-
Balance at end of year	261	174	-	-

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.

25. Contributed Equity

Contributed equity

61,236,853 fully paid ordinary shares (2004: 61,236,853)	27,985	27,985	27,985	27,985

	Consolidated			
	2005		**2004**	
	No '000	**$'000**	**No '000**	**$'000**
Fully paid ordinary share capital				
Balance at beginning of financial year	61,237	27,985	61,237	27,985
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. There has been no movement in shares issued for the year.

Share Options

11,564,398 options exercisable over ordinary shares at $0.50 each expired on 25 July 2004.

69,000 unquoted employee options exercisable over ordinary shares at $0.50 each expired on 25 July 2004.

572,668 (2004: 592,668) unquoted employee options exercisable over ordinary shares at $0.50 each and expiring 25 November 2005 were on issue and were not exercised at the end of the financial year.

590,667 (2004: 803,667) unquoted employee options exercisable over ordinary shares at $0.50 each and expiring 30 November 2006 were on issue and were not exercised at the end of the financial year.

Further details of the Employee Share Option Plan are contained in notes 4 & 5 to the financial statements.

26. Reserves

	Consolidated		Company	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
(a) Reserves comprise				
Foreign currency translation	(903)	(517)	-	-
General profit reserve	-	3,216	471	471
	(903)	2,699	471	471
(b) Movements in reserves				
General profit reserve				
Balance at beginning of financial year	3,216	3,216	471	471
Transfer to retained profits	(3,216)	-	-	-
Dividend paid	-	-	-	-
Balance	-	3,216	471	471
Foreign currency translation reserve				
Balance at beginning of financial year	(517)	(611)	-	-
Translation of foreign operations	(386)	94	-	-
Balance	(903)	(517)	-	-
Balance of reserves at end of financial year	(903)	2,699	471	471

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	(206)	-	321	-
Transfer from General Reserve	3,216	-	-	-
Net profit/(loss)	(1,102)	(206)	1,229	321
Balance at end of financial year	1,908	(206)	1,550	321

28. Dividends

	2005		2004	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Consolidated		Company	
	2005 $'000	**2004 $'000**	**2005 $'000**	**2004 $'000**
Adjusted franking account balance (tax paid basis)	2,711	2,629	2,711	24

	Consolidated	
	2005 Cents per share	**2004 Cents per share**

29. Earnings Per Share

Basic earnings/(loss) per share	(1.8)	(0.3)
Diluted earnings/(loss) per share	(1.8)	(0.3)

	2005 $'000	**2004 $'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/(loss)	(1,102)	(206)

	2005 No.	**2004 No.**
Weighted average number of ordinary shares	61,236,853	61,236,853

	2005 $'000	**2004 $'000**
Diluted earnings per share The earnings and weighted average number of ordinary and potential shares used in the calculation of diluted earnings per share are as follows:		
Earnings/(loss)	(1,102)	(206)

	2005 No.	**2004 No.**
Weighted average number of ordinary shares and potential ordinary shares	61,862,336	61,236,853

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:

	2005 No. '000	**2004 No. '000**
Ordinary Options	-	11,564
Secondary Options	-	-
Unquoted Employee Options	1,163	1,465

30. Commitments for Expenditure

(a) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 31 to the financial statements.

31. 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.

	Consolidated		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Finance lease liabilities				
No later than 1 year	86	68	-	-
Later than 1 year and not later than 5 years	147	159	-	-
Minimum finance lease payments	233	227	-	-
Less future finance charges	(23)	(27)	-	-
Finance lease liabilities	210	200	-	-
Included in the financial statements as:				
Current interest bearing liabilities (note 17)	73	55	-	-
Non-current interest bearing liabilities (note 21)	137	145	-	-
	210	200	-	-

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.

	Consolidated		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Non-cancellable operating leases				
Not longer than 1 year	346	371	-	-
Longer than 1 year and not longer than 5 years	71	212	-	-
Longer than 5 years	-	-	-	-
	417	583	-	-

32. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest 2005 %	Ownership Interest 2004 %
Parent Entity			
Ellex Medical Lasers Limited	Australia		
Controlled Entities			
Ellex Medical Pty Ltd	Australia	100	100
Laserex Medical Pty Ltd formerly Ellex R& D Pty Ltd	Australia	100	100
Laserex Medical Inc formerly Laserex Systems Inc	USA	100	100
ResDev Labs Inc	USA	100	100
Laserex Corporation formerly Amphi Medical Corporation	Japan	100	100

33. 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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Australia*	4,934	3,190	30,377	31,717	480	698
USA	14,382	17,471	3,353	4,085	6	473
Europe	5,561	4,086	-	-	-	-
Japan	2,521	704	5,325	2,512	21	186
Asia	828	851	-	-	-	-
Other	230	256	-	-	-	-
	28,456	26,558	39,055	38,314	507	1,357

*Revenue for Australia in 2005 includes a Research & Development Grant of $1,410,018, in 2004 this was $1,009,000.

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

34. Related Party Disclosures

(a) Equity interests in related parties

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 32 to the financial statements.

(b) Directors' remuneration and retirement benefits

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

(c) Specified directors' and specified executives' equity holdings

Fully paid ordinary shares issued by Ellex Medical Lasers Limited

	Balance at 1/7/04 No.	Granted as remuneration No.	Rec'd on exercise of options No.	Net other change No.	Balance at 30/6/05 No.	Balance held nominally No.
Specified directors						
D J Lindh	654,072	-	-	-	654,072	-
V K Previn	3,164,034	-	-	102,000	3,266,034	-
K R Johnson	40,000	-	-	-	40,000	-
P Falzon	-	-	-	620,000	620,000	-

	Balance at 1/7/04 No.	Granted as remuneration No.	Rec'd on exercise of options No.	Net other change No.	Balance at 30/6/05 No.	Balance held nominally No.
Specified executives						
K McGuinness	60,000	-	-	-	60,000	-
A Kalatzis	-	-	-	-	-	-
B Swaim	-	-	-	-	-	-
J Orkizsewski	-	-	-	-	-	-
Y Isoda	-	-	-	-	-	-

Share Options issued by Ellex Medical Lasers Limited

	Balance at 1/7/04 No.	Granted as remuneration No.	Rec'd on exercise of options No.	Net other change No.	Balance at 30/6/05 No.	Balance held nominally No.
Specified directors						
D J Lindh	1,202,000	-	-	-1,202,000	-	-
V K Previn	3,500,000	-	-	-3,500,000	-	-
K R Johnson	50,000	-	-	-50,000	-	-
P Falzon	150,000	-	-	-	150,000	-
Specified executives						
K McGuinness	150,000	-	-	-	150,000	-
A Kalatzis	133,334	-	-	-	133,334	-
B Swaim	50,000	-	-	-	50,000	-
J Orkizsewski	30,000	-	-	-30,000	-	-
Y Isoda	-	-	-	-	-	-

Each share option 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.

(d) Transactions within the wholly-owned group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- wholly-owned controlled entities;
- other entities in the wholly-owned group.

The ultimate parent entity of the wholly-owned group is Ellex Medical Lasers Limited.

(e) Other transactions with director related entities

The company has purchased consulting services from SEQM Pty Ltd for $12,000 (2004: $21,500). A Director of this company is a relative of the former chairman. From July 2004 to December 2004, the consultancy was a monthly retainer for Investor Relations activities, in accordance with normal commercial terms and conditions. The consultancy was terminated in December 2004.

The amount payable to directors per note 16 refers to salary and directors fees for Mr V Previn, the amount is non-interest bearing.

	Consolidated		Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000

35. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
Cash	-	756	-	-
Overdraft	(1,485)	-	-	-
	(1,485)	756	-	-

(b) Financing facilities

	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
Secured loan and overdraft facilities with various maturity dates through to 2010 and which may be extended by mutual agreement:				
Amount used	4,985	2,000	-	-
Amount unused	4,015	7,000	-	-
	9,000	9,000	-	-

(c) Reconciliation of profit/(loss) from ordinary activities after related income tax to net cash flows from operating activities

	Consolidated 2005 $'000	Consolidated 2004 $'000	Company 2005 $'000	Company 2004 $'000
Profit/(loss) from ordinary activities after related income tax	(1,102)	(206)	1,229	321
Depreciation and amortisation of non-current assets	1,681	1,548	-	-
Increase/(decrease) in income tax payable	(525)	(145)	(1,229)	77
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(1,025)	329	-	(398)
Current inventories	(1,361)	(1,385)	-	-
Other assets	(230)	(100)	-	-
Increase/(decrease) in liabilities:				
Current trade payables	(518)	1,496		
Other liabilities	119	(333)	-	-
Net cash from operating activities	(2,961)	1,204	-	-

(d) Non cash financing and investing activities

During the financial year, the consolidated entity purchased property, plant and equipment at a cost of $75 thousand under finance lease arrangements, and financed insurance of $212 thousand. These amounts are not reflected in the statement of cash flows.

36. Financial Instruments

(a) Significant accounting policies

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

(b) Significant terms and conditions

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

	Average Exchange Rate		Principal Amount	
Outstanding Contracts	**2005**	**2004**	**2005 $'000**	**2004 $'000**
Sell US Dollars				
Less than 3 months	0.7227	0.5870	636	596
3 to 6 months	-	0.5790	-	432
Longer than 6 months	-	0.6890	-	583
	0.7227	0.6210	636	1,611

Collar Options
Using collar options, the consolidated entity takes up options to protect against potential adverse currency fluctuations, due to the sale and purchase of goods in foreign currencies. The following table details the collar options outstanding as at the reporting date:

	2005		2004		Principal Amount	
Outstanding Options	**Put Average Strike Rate**	**Call Average Strike Rate**	**Put Average Strike Rate**	**Call Average Strike Rate**	**2005 $'000**	**2004 $'000**
Sell US Dollars						
Not longer than 1 year	0.795	0.71	0.772	0.6952	845	719
Longer than 1 year	0.78	0.711	-	-	141	-
Sell Japanese Yen						
Not longer than 1 year	-	-	0.80	0.6806	-	882
Longer than 1 year	-	-	-	-	-	-
					986	**1,601**

(c) Interest rate risk

The following table details the consolidated entity's exposure to interest rate risk as at the 30 June 2005; all other financial assets and liabilities are non-interest bearing:

			Fixed Interest Rate Maturity				
2005	**Average Interest Rate %**	**Variable Interest Rate $'000**	**Less than 1 Year $'000**	**1 to 5 Years $'000**	**More than 5 Years $'000**	**Non-Interest Bearing $'000**	**Total $'000**
Financial Assets							
Cash	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	4,322	4,322
		-	-	-	-	4,322	4,322
Financial Liabilities							
Bank overdraft	9.7%	1,485	-	-	-	-	1,485
Bank loans	7.47%	-	-	2,000	-	-	2,000
Commercial Bills	7.78%	-	1,500	-	-	-	1,500
Finance lease liabilities	7.6%	-	141	137	-	-	278
Payables	-	-	-	-	-	3,858	3,858
Provisions	-	-	-	-	-	785	785
		1,485	1,641	2,137	-	4,643	9,906

The following table details the consolidated entity's exposure to interest rate risk as at the 30 June 2004 all other financial assets and liabilities are non-interest bearing:

			Fixed Interest Rate Maturity				
	Average Interest Rate	Variable Interest Rate	Less than 1 Year	1 to 5 Years	More than 5 Years	Non-Interest Bearing	Total
2004	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets							
Cash	1.4%	756	-	-	-	-	756
Receivables	-	-	-	-	-	3,297	3,297
		756	-	-	-	3,297	4,053
Financial Liabilities							
Bank overdraft	-	-	-	-	-	-	-
Bank loans	6.8%	-	-	2,000	-	-	2,000
Finance lease liabilities	6.2%	-	92	145	-	-	237
Payables	-	-	-	-	-	4,376	4,376
Provisions	-	-	-	-	-	677	677
		-	92	2,145	-	5,053	7,290

(d) Credit risk

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

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

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

(e) Net fair value

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

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

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

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

	Carrying Amount		Net Fair Value	
Financial Assets	**2005 $'000**	**2004 $'000**	**2005 $'000**	**2004 $'000**
Not Readily Traded				
Foreign exchange contracts	44	108	44	77

37. Impact of adopting the Australian equivalents to International Financial Reporting Standards

Management of the transition to A-IFRSs

In accordance with the Financial Reporting Council's strategic directive, the consolidated entity will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ("A-IFRSs") for annual reporting periods beginning on or after 1 January 2005. Accordingly, the consolidated entity's first half-year report prepared under A-IFRSs will be for the half-year reporting period ended 31 December 2005, and its first annual financial report prepared under A-IFRSs will be for the year ended 30 June 2006.

At the date of this report, the Directors of the consolidated entity have established a project team which has performed a high-level assessment of the impact of A-IFRSs on the consolidated entity, and determined how they will manage the transition to A-IFRSs and carry out the transition work. The Directors and project team are monitoring the developments in A-IFRSs and the potential impact it will have on the company to be A-IFRS compliant, we anticipate the completion of the project before 31 December 2005.

While no formal decision has yet been made as to the policy alternatives to be applied or the extent of which it will affect the company, the directors of Ellex Medical Lasers Ltd have identified the following as being the key accounting policy differences expected to arise on the transition to A-IFRSs.

Income tax
Each member of the Tax Consolidated group recognises tax balances which are assumed by the head entity. Under AIFRS, if there are differences between amounts recognised in relation to current taxes and deferred taxes associated with losses/credits, the net differences will be recognised as contributions/distributions from equity participants.

Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not been currently determined.

Impairment of assets
Non-current assets are written down to recoverable amount when an asset's carrying amount exceeds its recoverable amount. Historically, Ellex Medical Lasers Ltd has not used discounted cash flows in determining recoverable amount. A-IFRS prescribes a more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Non-current assets, besides goodwill and indefinite life intangible assets, will continue to be depreciated, and are only subject to the impairment test if an indication of impairment exists.

Under the transitional rules of A-IFRS, the consolidated entity has the option to use fair value as the deemed cost of fixed assets. The consolidated entity has decided not to adopt these transitional rules and as such will adopt the amortised cost (as measured under A-IFRS) which should approximate current historic cost.

Amortisation of goodwill
Goodwill is currently amortised over a 20-year period. A-IFRS does not permit goodwill to be amortised, but instead requires the carrying amount to be tested for impairment at least annually. The entity has elected not to adopt the transitional provisions of AIFRS and will retain goodwill in its financial statements at its historical value. Goodwill currently recognised in the balance sheet must be tested for impairment at least annually and on a more regular basis if required. This change in accounting policy should increase profit by $1.105 million in the income statement. Management have not yet conducted an impairment test and will have an impairment model in place by 31 December 2005.

Off-balance sheet financial assets and liabilities
The directors have elected to apply the first-time adoption exemption available to defer the date of transition of AASB 139 until 1 July 2005. Accordingly, there will be no quantitative impacts on the 30 June 2005 financial statements.

Hedge accounting
The consolidated entity enters into forward exchange contracts for its purchases in order to hedge its exposure to fluctuations in exchange rates. Under A-IFRS, hedges are designated as fair value hedges or cash flow hedges, and the accounting differs depending on the designation. Where a hedge is designated as a fair value hedge, changes in the fair value of the hedged item and hedging instrument are recognised in profit or loss to the extent hedged, however, changes in the fair value of the hedging instruments classified as cash flow hedges are recognised in equity, and are recycled to the income statement when the hedged transaction affects the profit or loss.

The designation, documentation and effectiveness requirements under A-IFRS may result in some hedges no longer qualifying for hedge accounting. The company has not designated, documented or measured for effectiveness its cash flow hedges and therefore will not be hedge accounting. Therefore, on transition, the foreign currency hedge of $108 thousand will be transferred to equity & released to profit over the period to which it relates.

Proceeds from sale of assets
The current definition of revenue requires proceeds on sale of non-current assets to be included as revenue – this has the effect of grossing up the statement of financial performance. Under A-IFRS, such proceeds on sale will no longer meet the definition of revenue and accordingly will be excluded from revenue. However, the net gain or loss from the sale will continue to be recognised as part of the income statement as ‘income or expenses’. Consequently, there is no impact on net profit from this change in accounting policy.

Government grants
Presently, non-reciprocal grants received are recognised as revenue when the consolidated entity obtains control of the grant, regardless of the specific purpose to which the grant is required to be expended or the periods over which the grant applies. A liability to repay the grant is only recognised where a present obligation exists to repay grant monies. A-IFRS requires grants received to be recognised as income on a systematic basis over the periods necessary to match them with related costs, which they are intended to compensate, but only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received. The impact of adopting A-IFRS on the consolidated entity would be to reduce income in the financial year just completed and increase income in future years. It is not possible to determine the impact of the change in hedging requirements until a full analysis of the impact has been finalised.

Foreign currency translation
The current requirements for translation of foreign subsidiaries differentiates between self-sustaining and integrated foreign subsidiaries, with the foreign currency differences for integrated foreign subsidiaries being included in the profit and loss. However, under A-IFRS, each subsidiary is required to determine its functional currency. Those subsidiaries with a functional currency other than Australian Dollars (the consolidated entity’s functional currency) will be accounted for in the same manner as previous self sustaining foreign entities. The impact of the change on the financial statements is unlikely to significantly impact the income statement. The impact of the change on the financial statements may not significantly impact the income statement. The directors have elected to reset the Foreign Currency Translation Reserve to zero. Therefore, on transition, an amount of $94 thousand will be reclassified from the Foreign Currency Translation Reserve to retained earnings. These translation differences will be excluded from the calculation of any gain or loss on a subsequent disposal of the foreign operation.

Share based payment
Under A-IFRS, share based payments including options issued by the company to employees and directors must be valued and expensed in the profit and loss over the vesting period of the options. The impact of the change on the financial statements cannot yet be quantified, but will reduce reported profits and increase equity.

Business combinations
Under A-IFRS, the purchase method of accounting must be applied where there is a business combination, however, not all acquisitions will qualify as a business combination, and as such the purchase method of accounting for these acquisitions may no longer be appropriate.

Furthermore, there are a number of recognition and measurement differences that result in relation to assets and liabilities acquired in a business combination, particularly in relation to intangible assets and restructuring provisions. The impact of these changes in accounting policy on first-time adoption will depend on whether the consolidated entity will elect to adopt the exemption available to it to not reopen past acquisitions and retrospectively account for them.

Intangible assets
Under AIFRS, certain expenditure incurred for the development of new products should be capitalised and then amortised over the useful life of the product when that expenditure satisfies specific criteria. From the date of transition, significant expenditure had been spent on development of new products however management has not had the appropriate information to identify and justify the capitalisation of relevant development expenditure. Therefore, development expenditure incurred up to 30 June 2005 will continue to be disclosed through the income statement.