

CONSOLIDATED RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the half year ended 31 December 2005
Ellex Medical Lasers Limited ACN 007 702 927

This results announcement is to be read in conjunction with the statutory financial statements attached to this announcement.

Consolidated Results **\$A'000**

Revenues from ordinary activities	up	26% to	17,075
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	116% to	1,733
Profit (loss) from ordinary activities after tax attributable to members	up	174% to	1,021
Net profit (loss) for the period attributable to members	up	174% to	1,021
Dividends (distributions)		Amount per security	Franked amount per security
Final dividend		0.00 ¢	0.00 ¢
Interim dividend			
Previous corresponding period		0.00 ¢	0.00 ¢
Record date for determining entitlements to the dividend	NOT APPLICABLE		

OTHER INFORMATION
For the half year ended 31 December 2005
Ellex Medical Lasers Limited
ACN 007 702 927

Net Tangible Assets per Security	Half year ended 31 December 2005	Half year ended 31 December 2004
Net tangible asset backing per ordinary security (excludes value attributable to goodwill and intellectual property)	\$0.14	\$0.13

Dividends

Date the dividend (distribution) is payable	Not Applicable
Record date to determine entitlements to the dividend (distribution)	Not Applicable
If it is a final dividend, has it been declared?	Not Applicable

Amount per security

		Amount per security	Franked amount per security at 30 % tax	Amount per security of foreign source dividend
	Final dividend:			
	Current year	0.00 ¢	0.00 ¢	0.00 ¢
	Previous year	0.00 ¢	0.00 ¢	0.00 ¢
	Interim dividend:			
	Current year	0.00 ¢	0.00 ¢	0.00 ¢
	Previous year	0.00 ¢	0.00 ¢	0.00 ¢



Ellexmedical

**CONSOLIDATED FINANCIAL REPORT
Ellex Medical Lasers Limited ACN 007 516 841
For the half year ended 31 December 2005**

DIRECTORS' REPORT
Ellex Medical Lasers Limited
ACN 007 702 927

The directors of Ellex Medical Lasers Limited submit herewith the financial report for the half year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Name

Mr V. Previn (Chairman)

Mr P. Falzon (Chief Executive Officer)

Mr A. Sundich (Non-Executive Director) – appointed 22 July 2005

Mr D. Lindh – resigned 22 July 2005

Review of Operations

Ellex Medical Lasers Limited (Ellex) generated a Net Profit After Tax of \$1,021 thousand (2004: a profit of \$372 thousand) on revenue of \$17.1 million (2004: \$13.6 million) accounted for on the basis of Australian equivalents to International Financial Reporting Standards (A-IFRS).

These financial statements should be read in conjunction with the press release and investor presentation released with the financial statements.

Subsequent Events

On 17 January 2006, the consolidated entity entered into an agreement for the sale of its premises at 82 Gilbert Street, Adelaide for a price of \$4.43 million. Settlement will take place in April 2006. The impact of this sale has not been recognised in the Financial Report at 31 December 2005. The consolidated entity expects to record a profit after tax on the sale of \$1.5 million.

Auditors Independence Declaration

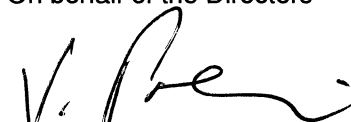
The auditor's independence declaration is included on page 5.

Rounding Off of Amounts

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

Signed in accordance with a resolution of directors pursuant to s. 306 (3) of the Corporations Act 2001.

On behalf of the Directors



Victor K Previn
Chairman

28/1 February 2006

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

28 February 2006

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 review of the financial statements of Ellex Medical Lasers Limited for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



ST Harvey
Partner
Chartered Accountants

Independent review report to the members of Ellex Medical Lasers Limited

Scope

We have reviewed the financial report of Ellex Medical Lasers Limited for the half-year ended 31 December 2005 as set out on pages 7 to 25. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Ellex Medical Lasers Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



ST Harvey
Partner
Chartered Accountants
Adelaide, 28 February 2006

DIRECTORS' DECLARATION
Ellex Medical Lasers Limited
ACN 007 702 927

The Directors declare that:

- (a) The attached financial statements and notes comply with Accounting Standards;
- (b) The attached financial statements and notes give a true and fair view of the financial position and performance of the Consolidated Entity
- (c) In the Directors' opinion, the attached financial statements and notes are in accordance with the Corporations Act 2001; and
- (d) In the Directors' opinion, there are reasonable grounds to believe that the Disclosing Entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of Directors



Victor K Previn
Chairman

28th February 2006

CONSOLIDATED INCOME STATEMENT
For the half year ended 31 December 2005
Ellex Medical Lasers Limited

	Consolidated	
	Half-Year ended 31 Dec 2005	Half-Year ended 31 Dec 2004
	\$'000	\$'000
Revenue	16,782	13,494
Other income	293	69
Raw materials and consumables used	(8,610)	(6,844)
Changes in inventory of finished goods and work in progress	(636)	26
Employee benefits expense	(4,756)	(4,073)
Legal fees	(18)	(24)
Depreciation and amortisation expense	(379)	(291)
Advertising and marketing	(413)	(425)
Borrowing costs	(239)	(172)
Product development raw materials and consumables used	(95)	(319)
Other expenses	(814)	(1,102)
<i>Profit before income tax expense</i>	1,115	339
Income tax (expense)/benefit	(94)	36
<i>Net profit attributable to members of the parent entity</i>	1,021	372
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Earnings per share		
- Basic (cents per share)	1.7	0.6
- Diluted (cents per share)	1.6	0.6

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

Ellex Medical Lasers Limited

	Notes	Consolidated	
		31 Dec 2005	30 June 2005
		\$'000	\$'000
Current assets			
Trade and other receivables		6,301	4,278
Derivatives		-	44
Inventories		9,820	10,759
Current tax assets		43	55
Other financial assets		475	452
Non-Current assets classified as held for sale		2,493	-
Total current assets		19,132	15,588
Non-current assets			
Property, plant and equipment		2,183	4,470
Goodwill		18,844	18,844
Other intangible assets		48	29
Intangibles – Capitalised development expenditure	5	4,313	3,831
Deferred tax assets		837	708
Total non-current assets		26,225	27,882
Total assets		45,357	43,470
Current liabilities			
Trade and other payables		4,650	3,858
Derivatives		19	-
Borrowings		2,871	3,126
Current tax liabilities		180	2
Provisions		900	785
Deferred grant income	5	2,052	2,094
Total current liabilities		10,672	9,865
Non-current liabilities			
Borrowings		2,098	2,137
Provisions		203	157
Total non-current liabilities		2,301	2,294
Total liabilities		12,973	12,159
Net assets		32,384	31,311
Equity			
Issued capital		27,985	27,985
Reserves		(334)	(386)
Retained profits		4,733	3,712
Total equity		32,384	31,311

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the half year ended 31 December 2005
Ellex Medical Lasers Limited

	Consolidated	
	Half-Year ended 31 Dec 2005	Half-Year ended 31 Dec 2004
	\$'000	\$'000
Translation of foreign operations:		
Exchange differences taken to equity	35	(206)
Issue of Share Options to employees	17	-
Net Income recognised directly in equity	52	(206)
Profit for the period	1,021	372
Total recognised income and expense for the period	1,073	166
Attributable to:		
Equity holders of the parent	1,073	166

CONSOLIDATED CASH FLOW STATEMENT
For the half year ended 31 December 2005
Ellex Medical Lasers Limited

	Consolidated	
	Inflows/(Outflows)	
	Half-year	Half-year
	ended	ended
	31 Dec 2005	31 Dec 2004
	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Receipts from customers	15,096	14,094
Payments to suppliers and employees	(13,610)	(14,169)
Interest and bill discounts received	5	2
Interest and other costs of finance paid	(239)	(172)
Income tax refund	27	-
Income tax paid	(43)	(353)
Net cash provided by/(used in)	1,236	(598)
<i>Cash flows from investing activities</i>		
Payment for purchase of intangibles	(19)	-
Payment for capitalised development costs	(627)	(1,365)
Payment for property, plant and equipment	(296)	(236)
Net cash used in investing activities	(942)	(1,601)
<i>Cash flows from financing activities</i>		
Proceeds of borrowings	1,093	1,191
Repayment of borrowings	(78)	-
Net cash provided by financing activities	1,015	1,191
<i>Net increase/(decrease) in cash held</i>	1,309	(1,008)
<i>Cash at the beginning of the half year</i>	(1,485)	756
Effects of exchange rate changes on the balance of cash held in foreign currencies	35	(205)
<i>Cash at the end of the half year</i>	(141)	(457)

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

1. Summary of accounting policies

Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 8.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 8), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1(w).

Significant accounting policies

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

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(b) Cash and cash equivalents

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

(c) 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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. The consolidated entity has not designated derivative financial instruments into qualifying hedge relationships.

(d) Employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

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

Contributions to defined contribution superannuation plans are expensed when incurred.

(e) Financial assets

Financial assets are classified as loans and receivables and are recorded at amortised cost less impairment.

(f) Foreign currency

Foreign currency transactions

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 reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

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

(h) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also note 1(j).

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

(i) Government grants

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

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

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

(j) Impairment of assets

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

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

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

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

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

(k) Income tax

Current tax

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

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. *Ellex Medical Lasers Limited* is the head entity in the tax-consolidated group.

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

(l) Intangible assets

Patents, trademarks and licences

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

Research and development costs

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets, being capitalised development costs, are stated at cost less accumulated amortisation and impairment, and are amortised on a pro-rata basis as product is sold based on total estimated sales over their useful lives of 5 years.

Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

(m) Inventories

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

(n) Leased assets

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

Consolidated entity as lessee

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(a).

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

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

(o) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(p) Payables

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

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

(q) Principles of consolidation

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

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

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

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

(r) Property, plant and equipment

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

Depreciation is provided on property, plant and equipment, 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 expected useful lives are used in the calculation of depreciation:

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

(s) 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.

Warranties

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

(t) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(u) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the Black Scholles model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

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

(v) **Comparative amounts**

A prior period adjustment reclassifying general profit reserves of \$3,217 thousand as retained profits has been made retrospectively in the comparative Consolidated Balance Sheet as at 1 July 2004 and 31 December 2004. Management has determined that the purpose of these reserves is no longer required.

(w) **Comparative information – financial instruments**

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, as permitted on the first-time adoption of A-IFRS. The effect of changes in the accounting policies for financial instruments on the balance sheet at 1 July 2005 is to reduce the provision for doubtful debts by \$6 thousand dollars being the amount previously recognised as a general provision. The effect of this would have been consistent with prior periods.

NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2005
Ellex Medical Lasers Limited

2. Revenue

	Consolidated	
	31 Dec 2005	31 Dec 2004
	\$'000	\$'000
(a) Other income		
Interest revenue:		
Other entities	5	2
Net foreign exchange gain	7	-
Research & Development Start Grant income	218	67
Other	63	-
	293	69

3. Product Development

Included in the half year Income Statement are the following expenses in relation to Product Development undertaken by the consolidated entity:

	Consolidated	
	31 Dec 2005	31 Dec 2004
	\$'000	\$'000
Salaries, wages and contractors	831	891
All other costs	960	1,611
Total Product Development expenses	1,791	2,502

4. Dividends

	31 Dec 2005		31 Dec 2004	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

5. Intangibles – Capitalised R & D

	Consolidated	
	31 Dec 2005	31 Dec 2004
	\$'000	\$'000
Opening Balance	3,831	1,807
Product Development Costs deferred to future periods	627	1,365
	4,458	3,172
Cumulative amortisation	(145)	(23)
	4,313	3,149
Deferred R & D Grant Income attributable to Capitalised R & D (included in current liabilities)	(2,052)	(2,094)
Net Capitalised R & D	2,261	1,055

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

6. Segment Information

The Consolidated Entity has one primary segment which is the business of manufacture and sale of Ophthalmic Lasers, shown in the consolidated Income Statement and Balance Sheet in this half year report.

The Consolidated Entity has not presented a separate segment report.

7. Subsequent Event

On 17 January 2006, the consolidated entity entered into an agreement for the sale of its premises at 82 Gilbert Street, Adelaide for a price of \$4.43 million. Settlement will take place in April 2006. The impact of this sale has not been recognised in the accounts at 31 December 2005. The consolidated entity expects to record a profit after tax on the sale of \$1.5 million.

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

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB1 First-time adoption of Australian equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

Effect of A-IFRS on the balance sheet as at 1 July 2004

	Note	Consolidated		
		Super-seded policies \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
Current assets				
Cash assets		756	-	756
Trade Receivables		3,220	-	3,220
Derivatives		77	-	77
Other Receivables		222	-	222
Inventories		9,398	-	9,398
Total current assets		13,673	-	13,673
Non-current assets				
Property, plant and equipment		4,611	-	4,611
Intangibles	(c)	18,844	-	18,844
Other intangible assets		31	-	31
Intangibles-Capitalised development expenditure	(c)	-	1,800	1,800
Deferred tax assets	(e)	1,155	(253)	902
Total non-current assets		24,641	1,547	26,188
Total assets		38,314	1,547	39,861
Current liabilities				
Trade and Other Payables		4,376	-	4,376
Borrowings		92	-	92
Current tax liabilities		396	-	396
Provisions		677	-	677
Other	(f)	4	957	961
Total current liabilities		5,545	957	6,502
Non-current liabilities				
Borrowings		2,145	-	2,145
Provisions		146	-	146
Total non-current liabilities		2,291	-	2,291
Total liabilities		7,836	957	8,793
Net assets		30,478	590	31,068
Equity				
Issued capital		27,984	-	27,984
Reserves	(a)	(517)	517	-
Retained profits	(g)	3,011	73	3,084
Total equity		30,478	590	31,068

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

Effect of A-IFRS on the income statement for the half year ended 31 December 2004 and the financial year ended 30 June 2005

	Note	Half-year ended 31 December 2004			Financial year ended 30 June 2005		
		Super- seded policies	Effect of transition to A-IFRS	A-IFRS \$'000	Super- seded policies	Effect of transition to A-IFRS	A-IFRS \$'000
		\$'000	\$'000		\$'000	\$'000	
Revenue	(c)(f)	14,546	(1,052)	13,494	28,456	(1,244)	27,212
Other income	(d)	-	69	69	-	107	107
Changes in inventory of finished goods and work in progress		26	-	26	981	-	981
Raw materials and consumables used	(c)	(7,089)	237	(6,852)	(14,485)	363	(14,122)
Employee benefits expense	(c)	(5,145)	1,080	(4,065)	(9,319)	1,687	(7,632)
Legal fees		(24)	-	(24)	(68)	-	(68)
Depreciation and amortisation expense	(b)(c)	(829)	538	(291)	(1,681)	1,030	(651)
Advertising and marketing expenses		(425)	-	(425)	(802)	-	(802)
Borrowing costs expenses		(172)	-	(172)	(394)	-	(394)
Product development expenses	(c)	(367)	48	(319)	(637)	56	(581)
Other expenses from ordinary activities		(1,102)	-	(1,102)	(3,238)	-	(3,238)
(Loss)/Profit from ordinary activities before income tax benefit/(expense)		(581)	920	339	(1,187)	1,999	812
Income tax benefit relating to ordinary activities	(e)	142	(109)	33	85	(268)	(183)
Net profit attributable to members of the parent entity		(439)	811	372	(1,102)	1,731	629

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

Effect of A-IFRS on the balance sheet as at 31 December 2004 and 30 June 2005

Note	31 December 2004			30 June 2005		
	Super- seded policies	Effect of transition to A-IFRS	A-IFRS \$'000	Super- seded policies	Effect of transition to A-IFRS	A-IFRS \$'000
	\$'000	\$'000		\$'000	\$'000	
Current assets						
Trade and other receivables	3,578	-	3,578	4,278	-	4,278
Derivatives	143	-	143	44	-	44
Inventories	10,100	-	10,100	10,759	-	10,759
Current tax assets	-	-	-	55	-	55
Other current assets	451	-	451	452	-	452
Total current assets	14,272	-	14,272	15,588	-	15,588
Non-current assets						
Property, plant and equipment	4,571	-	4,571	4,470	-	4,470
Goodwill (b)	18,291	553	18,844	17,739	1,105	18,844
Capitalised development expenditure (c)	-	3,149	3,149	-	3,831	3,831
Other intangible assets	31	-	31	29	-	29
Deferred tax assets (e)	1,595	(362)	1,233	1,229	(521)	708
Total non-current assets	24,488	3,340	27,828	23,467	4,415	27,882
Total assets	38,760	3,340	42,100	39,055	4,415	43,470
Current liabilities						
Trade and other payables	3,733	-	3,733	3,858	-	3,858
Borrowings	709	-	709	3,126	-	3,126
Current tax liabilities	328	-	328	2	-	2
Provisions	806	-	806	785	-	785
Deferred grant income (f)	-	1,941	1,941	-	2,094	2,094
Total current liabilities	5,576	1,941	7,517	7,771	2,094	9,865
Non-current liabilities						
Borrowings	3,174	-	3,174	2,137	-	2,137
Provisions	175	-	175	157	-	157
Total non-current liabilities	3,349	-	3,349	2,294	-	2,294
Total liabilities	8,925	1,941	10,866	10,065	2,094	12,159
Net assets	29,835	1,399	31,234	28,990	2,321	31,311
Equity						
Contributed equity	27,985	-	27,985	27,985	-	27,985
Reserves (a)	(928)	517	(411)	(903)	517	(386)
Retained profits (g)	2,778	882	3,660	1,908	1,804	3,712
Total equity	29,835	1,399	31,234	28,990	2,321	31,311

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

9. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

Effect of A-IFRS on the cash flow statement for the financial year ended 31 December 2005

There are no material differences, apart from classifying as an investing activity the capitalisation of development expenditure, between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliations of income and equity

(a) Cumulative exchange differences

At the date of transition, the consolidated entity elected to reset the foreign currency translation reserve to zero. An amount of \$517,000 was 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.

Subsequent foreign currency gains and losses from the translation of the foreign operations are recognised in the foreign currency translation reserve consistent with previous GAAP.

(b) Goodwill

The consolidated entity has elected not to restate business combinations that occurred prior to the date of transition to A-IFRS, and accordingly, the carrying amount of goodwill at the date of transition has not changed. In addition, goodwill arising from these business combinations that involved the acquisition of foreign businesses will be treated as an Australian dollar denominated asset.

However, goodwill, which was amortised under superseded policies, is not amortised under A-IFRS from the date of transition. The effect of the change is an increase in the carrying amount of goodwill by \$553,000 and a corresponding increase in net profit before tax for the half-year ended 31 December 2004, and by \$1,105,000 with a corresponding increase in net profit before tax for the financial year ended 30 June 2005. There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

(c) Intangible Assets

Under A-IFRS 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.

At the date of transition, the consolidated entity identified expenditure amounting to \$1,800,000 that met the criteria for deferral and was capitalised with a corresponding adjustment to retained earnings.

For the half year to 31 December 2004 a further \$1,365,000 of costs met the criteria for deferral with \$16,000 of costs amortised. A corresponding adjustment was made to the profit and loss.

For the year to 30 June 2005 a further \$2,107,000 of costs met the criteria for deferral with \$25,000 of costs amortised. A corresponding adjustment was made to the profit and loss.

(d) Revenue

Other income has been reclassified from revenue which has had the effect of reducing revenue by \$69 thousand for the 6 month period ending 31 December 2004 and by \$107 thousand for the year ending 30 June 2005.

(e) Income tax

Under superseded policies, the consolidated entity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The effect of the above adjustments on the deferred tax balances are as follows:

	Consolidated		
	1 Jul 2004	31 Dec 2004	30 Jun 2005
	\$'000	\$'000	\$'000
Deferred tax not recognised under previous GAAP	(253)	(362)	(521)
Net increase/(decrease) in deferred tax balances	(253)	(362)	(521)

The effect on consolidated profit for the half-year ended 31 December 2004 and the financial year ended 30 June 2005 was to decrease previously reported income tax benefit by \$109,000 and \$268,000 respectively.

The deferred tax adjustments have arisen from the tax effect of the aggregate A-IFRS adjustment that have been otherwise discussed.

(f) Government Grants

As at transition date, the consolidated entity recognised deferred income of \$278,000 relating to government grants to be matched with expenditure in future periods and \$679,000 relating to government grants on Capitalised R & D to be amortised to income as Capitalised R & D is amortised.

For the half year ended 31 December 2004, \$707,000 of grant income was taken to deferred income to match capitalised R & D and to be amortised to income in future periods and \$276,000 of grant income was deferred to be matched with expenditure in future periods.

For the year ended 30 June 2005, \$1,087,000 of grant income was taken to deferred income to match capitalised R & D and to be amortised to income in future periods and \$72,000 of grant income was deferred to be matched with expenditure in future periods.

(g) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Note	Consolidated		
		1 Jul 2004	31 Dec 2004	30 Jun 2005
		\$'000	\$'000	\$'000
Transfer from foreign currency translation reserve	a	(517)	(517)	(517)
Goodwill no longer amortised	b	-	553	1,105
Intangible assets	c	1,800	3,149	3,831
Government grants	f	(957)	(1,941)	(2,094)
Adjustments to tax balances	e	(253)	(362)	(521)
Total adjustment to retained earnings		73	882	1,804

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2005

Ellex Medical Lasers Limited

CORPORATE DIRECTORY

Directors

Victor Previn	BE (Chairman)
Peter Falzon	BEc (Group Chief Executive Officer)
Alex Sundich	BEc, MComm, ACA, ASIA (Non-Executive Director)

Company Secretary

Kevin McGuinness BAA, ACA

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Legal Advisors

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Share Registry

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Websites:

www.ellex.com.au
www.laserexmedical.com

Stock Exchange

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

ASX Code:

ELX – Ordinary Shares