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 2006**

For announcement to the market

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

Revenues from ordinary activities	up	28.3%	to	34,593
Profit (loss) from ordinary activities after tax attributable to members	up	221.6%	to	2,023
Profit (loss) from non-recurring items after tax attributable to members	gain of	n/a		1,690
Net profit (loss) for the period attributable to members	up	487.1%	to	3,693

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:

Refer to Attached Press Release and Investor Presentation

NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	22.0¢	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)

☑	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

ACN 007 702 927

Financial report for the financial year ended 30 June 2006

Annual financial report for the financial year ended 30 June 2006

Corporate governance statement

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

Board of Directors and its Committees

Role of the Board

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

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated 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 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 six 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 7 of this financial report.

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

- A minimum of three directors, with a broad range of expertise both nationally and internationally
- A minimum of one non-executive director
- Enough directors to serve on committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- At each Annual General Meeting one-third of the directors (except for the Managing Director/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.

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; or

- At any time whilst in possession of non-public price sensitive information.

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

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 $20,000 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. The Chairman must be a non-executive director. The Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

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

Mr V Previn – Executive Director
Mr A Sundich – Non-Executive Director

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 twice during the year.

The external auditor met with the Audit Committee and the Board of Directors twice 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 the companies control framework for the prevention of fraud and whether prompt and appropriate action is taken to rectify any deficiencies or breakdowns
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions

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

- To discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed

- Prior to announcement of results:

  - To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings

  - To recommend Board approval of these documents

- To finalise half-year and annual reporting:

  - Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made

  - Review the draft financial report and recommend Board approval of the financial report

- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board

Internal Control Framework

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

- Financial reporting – Quarterly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared 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 Chief Executive Officer and Chief Financial Officer ensure compliance with financial controls and procedures including information systems controls detailed in procedures manuals.

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

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

Internal Audit

The 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 13485-2003

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 13485-2003 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 Annual General Meeting provides a forum for all shareholders to interact with Directors on activities of the company.
- The full annual report is distributed to all shareholders (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.ellex.com.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated 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.

Directors' report

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Directors

Name	Particulars
Victor Previn	Victor Previn is 48 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor is currently an Executive Technical Director who has considerable experience in the ophthalmic laser industry and was one of the original founders and shareholders of Ellex.
Peter J Falzon	Peter Falzon is 43 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.
Alex M Sundich	Alex Sundich is 42 years old and was appointed a non-executive director on 22 July 2005. Until 30 June 2006 Alex was the Interim Chief Executive Officer and Chief Financial Officer of Record Investments Limited, an ASX listed company. Prior to this, Alex was an investment banker involved in Mergers & Acquisitions and capital raisings, having worked in Australia and the US.
David J Lindh	David Lindh is 61 years old and was appointed a director on 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.

The above named directors held office during and since the end of the financial year except for:

- David J Lindh (resigned 22 July 2005)

Company Secretary

Kevin P McGuinness	Kevin McGuinness is 39 years old and has been the Chief Financial Officer and Company Secretary since October 2002. In April 2006, Kevin was appointed Chief Operating Officer in addition to his existing roles. Kevin is a Chartered Accountant with 7 years experience with Deloitte Touche Tohmatsu in both Australia and the UK and over 17 years senior financial management experience in public and privately owned companies.

Principal activities

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

Review of operations

The consolidated profit for the year after income tax was \$3.7 million. Excluding a gain on the sale of the company's head office in Adelaide, consolidated profit for the year after income tax was \$2.0 million, compared to a profit of \$0.6 million for 2004/2005.

The year ended 30 June 2006 saw Ellex achieve 28% growth in revenue and a 487% increase in Net Profit After Tax for the consolidated entity. Strategies implemented over recent years to expand the product portfolio and improve distribution channels began to have a positive impact on the financial results of the consolidated entity.

Japan continued to show further growth and by the end of the financial year was making a positive contribution to the profitability of the group. Growth was not limited to Japan with all key regions (USA, Europe and Asia) experiencing strong revenue growth during the year. In the US Ellex has commenced a transition to direct sales and is focussed on driving improved brand awareness and growth in this key market.

During the year, the group undertook a major re-branding program launching Ellex as the new brand for all of its products and overseas entities. This for the first time created a consistent brand world wide for the group.

In March 2006, Ellex announced the release of its latest new product, the Integre Duo. This is the first multi-wavelength laser developed by Ellex and targets the high-end retinal market. Production in the 2005/06 financial year was limited, and the product is not expected to have a major impact until the 2006/07 financial year.

Other important initiatives during the year included the establishment of Global Service focussed on driving a coordinated approach to superior customer service and invested in strengthening manufacturing capacity including establishing a dedicated manufacturing engineering team.

A detailed 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.

Changes in state of affairs

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

Subsequent events

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

On 21 August 2006, the Company announced that it had signed a Memorandum of Understanding to acquire the business and assets of Coherent Lasers (Australia) Pty Ltd and in so doing establish a direct sales channel for the Ellex range of products for Australia and New Zealand. The acquisition is expected to be finalised by 30 September 2006. The acquisition price is not of a material amount

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.

Dividends

No dividend has been declared with respect to the year ended 30 June 2006 (30 June 2005: Nil).

Share options

Share options granted to directors and executives

During and since the end of the financial year an aggregate of 4,166,664 share options were granted to the following directors and executives of the company:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
P Falzon	2,200,000	Ellex Medical Lasers Ltd	2,200,000
K McGuinness	1,000,000	Ellex Medical Lasers Ltd	1,000,000
A Kalatzis	200,000	Ellex Medical Lasers Ltd	200,000
B Potter	200,000	Ellex Medical Lasers Ltd	200,000
M Plunkett	200,000	Ellex Medical Lasers Ltd	200,000
L Hall	133,332	Ellex Medical Lasers Ltd	133,332
D Watton	133,332	Ellex Medical Lasers Ltd	133,332
H Pummer	100,000	Ellex Medical Lasers Ltd	100,000

All options issued during and since the end of the financial year are subject to vesting rules based on meeting revenue and profit growth targets. At the date of this report none of the options detailed above had vested.

Share options on issue at year end or exercised during the year

Details of unissued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Ellex Medical Lasers Limited	366,667	Ordinary	$0.50	30/11/2006
Ellex Medical Lasers Limited	1,400,000	Ordinary	$0.30	30/09/2009
Ellex Medical Lasers Limited	1,400,000	Ordinary	$0.40	30/09/2010
Ellex Medical Lasers Limited	1,400,000	Ordinary	$0.50	30/09/2011

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

Details of shares or interests issued during the financial year as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Nil	Nil	N/A	N/A	N/A

Indemnification of officers and auditors

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

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' DJ Lindh, V Previn, P Falzon and Company Secretary K McGuinness. 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.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, seven board meetings and two audit committee meetings were held.

	Board of directors		Audit committee	
Directors	Held	Attended	Held	Attended
V Previn	7	7	2	2
P Falzon	7	7	N/A	N/A
A Sundich	7	7	2	2
D Lindh	-	-	N/A	N/A

Directors' shareholdings

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

Directors	Interests of Directors		Interests of Director Related Entities	
	Fully Paid Ordinary Shares	Options	Fully Paid Ordinary Shares	Options
V Previn	-	-	3,566,034	-
P Falzon	760,000	2,200,000	-	-
A Sundich	1,000,000	-	2,400,000	-

Remuneration report

Remuneration policy for directors and executives

The Board reviews the remuneration packages of all Directors and Executive Officers on an annual basis. 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 Board seeks the advice of external advisors in connection with the structure of remuneration packages.

Director and executive details

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

- Victor Previn – Chairman
- Peter Falzon – Chief Executive Officer
- Alex Sundich – Non-executive Director (appointed 22 July 2005)
- David Lindh – Non-executive Director (resigned 22 July 2005)

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

- Bill Swaim – President, Ellex (USA) Inc
- Yukitaka Isoda – President, Ellex (Japan) Corporation
- Kevin McGuinness – Chief Financial Officer/Chief Operating Officer
- Bob Potter – VP Operations
- Herbert Pummer – Manufacturing Engineering and Quality Manager
- Athy Kalatzis – VP Research & Development
- Simon Luscombe – VP Sales Asia
- Malcolm Plunkett – VP Advanced Research
- Christine Warren – VP Sales Greater Europe

Elements of director and executive compensation

Compensation packages contain the following key elements:

a) Salary/fees
b) Benefits – including the provision of motor vehicle, superannuation and health benefits
c) Incentive schemes – including performance related bonuses and share options under the Directors' and Employee Share Option plan as disclosed in notes 4 and 5 to the financial statements

The following table discloses the compensation of the directors of the company:

	Short term employee benefits			Post employment benefits		Share based payments		Other long term benefits	Total
2006	Cash salary & fees $	Profit sharing & bonuses $	Non-monetary beneifts $	Pension & super-annuation $	Other $	Equity settled - Options $	Cash settled $	$	$
V Previn	190,919	-	-	37,100	-	-	-	-	228,019
P Falzon	233,904	25,062	-	11,695	-	19,855	-	-	290,516
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
D Lindh	45,000	-	-	1,350	-	-	-	-	46,350
TOTAL	**494,823**	**25,062**	-	**52,395**	-	**19,855**	-	-	**592,135**

The following table discloses the compensation of the 5 highest remunerated executives of the company and group executives of the consolidated entity:

	Short term employee benefits			Post employment benefits		Share based payments		Other long term benefits	Total
2006	Cash salary & fees $	Profit sharing & bonuses $	Non-monetary beneifts $	Pension & super-annuation $	Other $	Equity settled - Options $	Cash settled $	$	$
Y Isoda	232,728	75,636	4,189	-	-	-	-	-	312,553
B Swaim	224,111	18,893	20,513	22,641	-	-	-	-	286,158
C Warren	201,780	44,298	-	-	-	-	-	-	246,078
K McGuinness	152,126	-	20,124	13,296	-	9,025	-	-	194,571
A Kalatzis	141,312	-	9,076	12,113	-	1,805	-	-	164,306
TOTAL	**952,057**	**138,827**	**53,902**	**48,050**	-	**10,830**	-	-	**1,203,666**

Elements of compensation related to performance

Compensation to Directors and Executives include performance based elements. Key Performance Indicators are based on profit and/or revenue as determined by the board.

Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options Granted	Options Exercised	Options Lapsed	Total value of options granted, exercised and lapsed	Value of options included in compensation for the year	Percentage of total compensation for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
	$	$	$	$	$	%
P Falzon	19,855	-	-	19,855	19,855	6.83
K McGuinness	9,025	-	-	9,025	9,025	4.64
A Kalatzis	1,805	-	-	1,805	1,805	1.10
B Potter	1,805	-	-	1,805	1,805	1.37
M Plunkett	1,805	-	-	1,805	1,805	1.84

Value of options - basis of calculation

1) The total value of options granted is calculated on the fair value of the option at the grant date multiplied by the number of options granted during the year.

2) The total value of the options included in compensation for the year is calculated in accordance with Accounting Standards.

- The value of the options is determined at grant date and included in compensation on a proportionate basis from grant date to vesting date. Where the options immediately vest the full value of the option is recognised in compensation in the current year.

3) Vesting of options listed above is subject to the following performance being achieved:

- Achieving 15% Compound Annual Growth in "Product Revenues" (other income is excluded) with the year ended June 2005 being the "base year". If in a particular year revenue does not grow 15% but the Compound Annual Growth Revenue from the base year is greater than 15% per annum then the performance criteria will have been met; and
- Achieving the following EBITDA:
  - Year to June 2006 – 7.5% of target revenue
  - Year to June 2007 – 10.0% of target revenue
  - Year to June 2008 – 12.5% of target revenue

Proceedings on behalf of the company

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

Non-audit services

The auditors did not provide any non-audit services during the year. Details of amounts paid or payable to the auditor for all services provided during the year by the auditor are outlined in note 6 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 12 of the financial report.

Rounding off of amounts

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

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

On behalf of the Directors

Victor Previn
Chairman
Adelaide, 22 August 2006

Deloitte

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

22 August 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 audit of the financial statements of Ellex Medical Lasers Limited for the financial year ended 30 June 2006, 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 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 balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Ellex Medical Lasers Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 14 to 55. 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 Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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 Accounting Standards in Australia and the Corporations Act 2001 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, their changes in equity 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.

Audit Opinion

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

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S T Harvey
Partner
Chartered Accountants
Adelaide, 22 August 2006

Member of
Deloitte Touche Tohmatsu

Directors' declaration

The directors declare that:

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

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

(c) 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 the Directors

Victor Previn
Chairman
Adelaide, 22 August 2006

Income statement for the financial year ended 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue	2	34,593	26,958	-	-
Other income	2	506	358	-	-
Gain on sale of property, plant and equipment	2	1,670	3	-	-
Changes in inventories of finished goods and work in progress		865	981	-	-
Raw materials and consumables used		(18,138)	(14,122)	-	-
Employee benefits expense	2	(9,803)	(7,632)	-	-
Legal fees		(33)	(68)	-	-
Depreciation and amortisation expense		(799)	(651)	-	-
Advertising and marketing expenses		(1,109)	(802)	-	-
Finance costs		(358)	(394)	-	-
Product development costs		(326)	(581)	-	-
Other expenses		(3,229)	(3,238)	-	-
Profit before income tax (expense)	2	3,839	812	-	-
Income tax (expense)/benefit	3	(146)	(183)	(111)	94
Profit attributable to members of the parent entity		3,693	629	(111)	94
Earnings per share:					
Basic (cents per share)	28	6.02	1.03		
Diluted (cents per share)	28	5.75	1.03		

Notes to the financial statements are included on pages 19 to 55.

Balance sheet as at 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current assets					
Cash & cash equivalents	35	-	-	1	-
Trade and other receivables	7	6,871	4,278	-	-
Other financial assets	8	46	44	-	-
Inventories	9	12,088	10,759	-	-
Current tax assets		-	55	-	-
Other	10	562	452	-	-
Total current assets		19,567	15,588	1	-
Non-current assets					
Trade and Other Receivables	7	-	-	4,627	4,529
Other financial assets	11	-	-	24,231	24,231
Property, plant and equipment	12	2,230	4,470	-	-
Deferred tax assets	3	908	708	-	111
Goodwill	13	18,844	18,844	-	-
Capitalised development expenditure	14	4,880	3,831	-	-
Other intangible assets	14	47	29	-	-
Total non-current assets		26,909	27,882	28,858	28,871
Total assets		46,476	43,470	28,859	28,871
Current liabilities					
Trade and other payables	16	5,529	3,858	-	-
Borrowings	17	2,195	3,126	-	-
Current tax payables	20	75	2	99	-
Provisions	18	877	785	-	-
Other liabilities	19	365	254	-	-
Total current liabilities		9,041	8,025	99	-
Non-current liabilities					
Borrowings	21	58	2,137	-	-
Provisions	22	214	157	-	-
Other liabilities	23	2,019	1,840	-	-
Total non-current liabilities		2,291	4,134	99	-
Total liabilities		11,332	12,159	99	-
Net assets		35,144	31,311	28,760	28,871
Equity					
Issued capital	25	27,985	27,985	27,985	27,985
Reserves	26	(246)	(386)	-	-
Retained earnings	27	7,405	3,712	775	886
Total equity		35,144	31,311	28,760	28,871

Notes to the financial statements are included on pages 19 to 55.

Statement of recognised income and expense for the financial year ended 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Translation of foreign operations:					
Exchange differences taken to equity	26	88	(386)	-	-
Net income recognised directly in equity		88	-	-	-
Profit for the period		3,693	629	(111)	94
Total recognised income and expense for the period		3,781	243	(111)	94
Attributable to:					
Equity holders of the parent		3,781	243	(111)	94

Notes to the financial statements are included on pages 19 to 55.

Cash flow statement
for the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash flows from operating activities					
Receipts from customers		31,987	24,717	-	-
Grant income received		722	1,553		
Payments to suppliers and employees		(31,271)	(26,205)	-	-
Interest received		9	19	-	-
Interest and other costs of finance paid		(358)	(394)	-	-
Income tax paid		(218)	(469)	-	-
Net cash provided by/(used in) operating activities	35	871	(779)	-	-
Cash flows from investing activities					
Payments for capitalised R & D		(1,326)	(2,106)	-	-
Payment for property, plant and equipment		(895)	(507)	-	-
Proceeds from sale of property, plant and equipment		4,291	2	-	-
Payment for intangible assets		(19)	(1)	-	-
Net cash provided by/(used in) investing activities		2,051	(2,612)	-	-
Cash flows from financing activities					
Proceeds from borrowings		-	1,536	1	-
Repayment of leases		(85)	-	-	-
Repayment of borrowings		(2,000)	-	-	-
Net cash (used in)/provided by financing activities		(2,085)	1,536	1	-
Net increase/(decrease) in cash and cash equivalents		837	(1,855)	1	-
Cash and cash equivalents at the beginning of the financial year		(1,485)	756	-	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		88	(386)	-	-
Cash and cash equivalents at the end of the financial year	35	(560)	(1,485)	1	-

Notes to the financial statements are included on pages 19 to 55.

Notes to the financial statements for the financial year ended 30 June 2006

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

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

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

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

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 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 company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 37.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 37), 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 and 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(u).

1. Summary of accounting policies (cont'd)

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

(a) Borrowings

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

(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 and collar options. Further details of derivative financial instruments are disclosed in note 36 to the financial statements.

The consolidated entity has not designated derivative financial instruments into qualifying hedge relationships.

Changes in the fair value of any financial instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

(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.

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

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

Contributions to defined contribution super plans are expensed when incurred.

(e) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

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

Loans and receivables

Trade receivables, loans, and other receivables 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 except that:

i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

1. Summary of accounting policies (cont'd)

(f) Foreign currency (cont'd)

ii. exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

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.

The financial statements of foreign subsidiaries, associates and jointly controlled entities that report in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the reporting date before they are translated into Australian dollars.

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

(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).

(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 are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

1. Summary of accounting policies (cont'd)

(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

<u>Current tax</u>

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).

<u>Deferred tax</u>

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.

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 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.

1. Summary of accounting policies (cont'd)

(k) Income tax (cont'd)

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 recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

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

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(l) Intangible assets

Patents, trademarks and licences

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

Research and development costs

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

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

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

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

- Capitalised development costs 5 – 15 years

1. Summary of accounting policies (cont'd)

(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.

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) 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.

(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 subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 32 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

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

(q) 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.

1. Summary of accounting policies (cont'd)

(q) Property, plant and equipment (cont'd)

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

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

• Buildings	40 years
• Plant and equipment	2.5 – 20 years
• Equipment under finance lease	4 – 5 years

(r) 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.

(s) 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.

(t) Share-based payments

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

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

(u) 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: 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 allowance for doubtful debts by $6,000 being the amount previously recognised as a general provision. The effect of this would have been consistent with prior periods.

2. Profit from operations

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Revenue				
Revenue from continuing operations consisted of the following items:				
Revenue from the sale of goods	34,584	26,939	-	-
Interest revenue:				
Other entities	9	19	-	-
	34,593	26,958	-	-
(b) Profit before income tax				
Profit before income tax has been arrived at after crediting/(charging) the following gains and losses from continuing operations:				
Gain on disposal of property, plant and equipment	1,670	3	-	-
	1,670	3	-	-
Other Income				
Net foreign exchange gains	67	83	-	-
R & D Income	332	254	-	-
Other income	107	21	-	-
	506	358	-	-
Profit before income tax has been arrived at after charging the following expenses. The line items below are attributable to continuing operations:				
Cost of sales	17,973	15,425	-	-
Finance costs:				
Finance leases	17	17	-	-
Interest on loans	341	377	-	-
Total interest expense	358	394	-	-
Net bad and doubtful debts arising from:				
Other entities	-	17	-	-
	-	17	-	-
Depreciation of property, plant and equipment	521	573	-	-
Amortisation of intangible assets	278	78	-	-
	799	651	-	-
Research and development costs immediately expensed	876	1,746	-	-
Operating lease rental expenses:				
Minimum lease payments	260	346	-	-

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000

2. Profit from operations (cont'd)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Employee benefit expense:				
Share based payments:				
Equity settled share based payments	52	-	-	-
Post employment benefits:				
Defined contribution plans	521	491	-	-
Other employee benefits	9,230	7,141	-	-
	9,803	7,632	-	-
Plant and Equipment				
Written down value of property, plant and equipment disposed of	2,529	16	-	-
Legal fees	33	68	-	-
Inventory write-down to net realisable value	195	374	-	-

3. Income taxes

(a) Income tax recognised in profit or loss

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Tax expense comprises:				
Current tax expense/(benefit)	346	(9)	-	(94)
Deferred tax expense/(benefit)	(200)	194	111	-
Total tax expense	146	183	111	(94)
Attributable to:				
Continuing operations	146	183	111	(94)
	146	183	111	(94)
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from operations	3,839	812	-	-
Income tax expense calculated at 30%	1,151	244	-	-
Capital loss brought to account	(181)	-	-	-
Non-deductible expenses	12	47	-	-
Effect of higher tax rates of tax on overseas income (USA)	45	(255)	-	-
Impact of adopting tax consolidation during the prior period	-	(1,135)	111	(94)
Tax consolidation – current year	(613)	-	-	-
Unused tax losses and tax offsets not recognised as deferred tax assets	452	1,398	-	-
Other	(301)	(134)	-	-
(Over)/under provision of income tax in previous year	(419)	18	-	-
	146	183	111	(94)

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

3. Income taxes (cont'd)

(b) Deferred tax balances

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Deferred tax assets comprise:				
Temporary differences	2,409	1,956	-	111
	2,409	1,956	-	111
Deferred tax liabilities comprise:				
Temporary differences	1,501	1,248	-	-
	1,501	1,248	-	-

Taxable and deductible temporary differences arise from the following:

Consolidated							
2006	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
Gross deferred tax assets:							
Intellectual Property	501	-	-	-	-	-	501
R & D Grant Payable	628	123	-	-	-	-	751
Employee entitlement provision	182	53	-	-	-	-	235
Other	136	154	-	-	-	-	290
Timing difference on unearned profits	509	123	-	-	-	-	632
	1,956	453	-	-	-	-	2,409
Gross deferred tax liabilities							
Capitalised R & D	1,150	314	-	-	-	-	1,464
Other	98	(61)	-	-	-	-	37
	1,248	253	-	-	-	-	1,501
Net deferred tax	708	200	-	-	-	-	908
2005							
Gross deferred tax assets:							
Intellectual Property	-	501	-	-	-	-	501
R & D Grant Payable	338	290	-	-	-	-	628
Employee entitlement provision	179	3	-	-	-	-	182
Other	111	25	-	-	-	-	136
Timing difference on unearned profits	290	219	-	-	-	-	509
	918	1,038	-	-	-	-	1,956
Gross deferred tax liabilities							
Capitalised R & D	-	1,150	-	-	-	-	1,150
Other	16	82	-	-	-	-	98
	16	1,232	-	-	-	-	1,248
Net deferred tax	902	(194)	-	-	-	-	708

Company							
2006	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
Gross deferred tax assets:							
Other	111	(111)	-	-	-	-	-
Net deferred tax	111	(111)	-	-	-	-	-
2005							
Gross deferred tax assets:							
Other	111	-	-	-	-	-	111
Net deferred tax	111	-	-	-	-	-	111

3. Income taxes (cont'd)

Unrecognised deferred tax balances

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
The following deferred tax assets have not been brought to account as assets:				
Timing difference – Intellectual Property	4,167	4,762	-	-
Tax losses – revenue (Japan)	1,850	1,398	-	-
	6,017	6,160	-	-

Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Ellex Medical Lasers Limited. The members of the tax-consolidated group are identified at note 32.

Nature of tax funding arrangements

Entities within the tax-consolidated group have entered into a tax funding arrangement with the head entity. The tax funding arrangement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax funding agreement is considered remote.

4. Key management personnel compensation

The key management personnel of Ellex Medical Lasers Limited during the year were:

- Victor Previn – Chairman
- Peter Falzon – Chief Executive Officer
- Alex Sundich – Non-executive Director (appointed 22 July 2005)
- David Lindh – Non-executive Director (resigned 22 July 2005)
- Bill Swaim – President, Ellex (USA) Inc
- Yukitaka Isoda – President, Ellex (Japan) Corporation
- Kevin McGuinness – Chief Financial Officer/Chief Operation Officer
- Bob Potter – VP Operations
- Athy Kalatzis – VP Research & Development
- Simon Luscombe – VP Sales Asia
- Malcolm Plunkett – VP Advanced Research
- Christine Warren – VP Sales Greater Europe

(a) Key management personnel compensation

The Board reviews the compensation packages of all key management personnel on an annual basis. Compensation packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the company.

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

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Short-term employee benefits	1,991,368	1,941,088	-	-
Post-employment benefits	128,218	103,416	-	-
Other long-term benefits	-	40,000	-	-
Termination benefits	-	-	-	-
Share-based payment	34,295	-	-	-
	2,153,881	2,084,504	-	-

4. Key management personnel compensation (cont'd)

Key management personnel compensation

	Short term employee benefits			Post-employment benefits		Share based payments		Other long term benefits	Total
	Salary & fees	Bonus	Non-monetary benefits	Pension & super-annuation	Other	Equity settled - Options	Cash settled		
2006	$	$	$	$	$	$	$	$	$
V Previn	190,919	-	-	37,100	-	-	-	-	228,019
P Falzon (i)(ii)	233,904	25,062	-	11,695	-	19,855	-	-	290,516
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
D Lindh	45,000	-	-	1,350	-	-	-	-	46,350
K McGuinness (i)	152,126	-	20,124	13,296	-	9,025	-	-	194,571
A Kalatzis (i)	141,312	-	9,076	12,113	-	1,805	-	-	164,306
B Potter (i)	100,884	-	20,209	9,269	-	1,805	-	-	132,167
C Warren (iii)	201,780	44,298	-	-	-	-	-	-	246,078
B Swaim (iii)	224,111	18,893	20,513	22,641	-	-	-	-	286,158
S Luscombe (iii)	88,411	28,780	-	10,547	-	-	-	-	127,738
M Plunkett (i)	88,413	-	-	7,957	-	1,805	-	-	98,175
Y Isoda (iii)	232,728	75,636	4,189	-	-	-	-	-	312,553
	1,724,588	192,669	74,111	128,218	-	34,295	-	-	2,153,881

	Short term employee benefits			Post-employment benefits		Share based payments		Other long term benefits	Total
	Salary & fees	Bonus	Non-monetary benefits	Pension & super-annuation	Other	Equity settled - Options	Cash settled		
2005	$	$	$	$	$	$	$	$	$
D Lindh	52,500	-	-	4,725	-	-	-	40,000	97,225
V Previn	196,816	-	18,126	17,321	-	-	-	-	232,263
K Johnson	33,333	-	-	3,000	-	-	-	-	36,333
P Falzon	101,122	-	7,027	5,273	-	-	-	-	113,422
K McGuinness	151,440	-	20,124	13,392	-	-	-	-	184,956
A Kalatzis	137,032	-	14,118	11,248	-	-	-	-	162,398
B Swaim	192,112	-	20,195	28,817	-	-	-	-	241,124
B Potter	102,960	-	18,463	8,765	-	-	-	-	130,188
J Orkizsewski	217,506	-	24,636	10,875	-	-	-	-	253,017
C Warren	228,736	-	-	-	-	-	-	-	228,736
Y Isoda (iv)	248,484	138,219	18,139	-	-	-	-	-	404,842
Total	1,662,041	138,219	140,828	103,416	-	-	-	40,000	2,084,504

i. During the year ended 30 June 2006, key management personnel were granted options on 30 September 2005 divided equally between Series 1, 2 and 3. Further details of the options are contained in note 5 to the financial statements.

ii. In line with performance based elements of Mr P Falzon's contract, he received bonuses paid as part of salary of $8,354 in November 2005, February and April 2006. The contract incorporated key performance indicators based on the consolidated net profit before tax results to be achieved

iii. In line with performance based elements of the contracts with key management personnel, bonuses paid as part of salary were granted during the year ended 30 June 2006 based on specific criteria for regional performances during each quarter of the year. They are based on gross margins and net contribution to profit for the following:

Ms C Warren received bonuses of $28,049 and $16,249 in January and May 2006 respectively.

Mr B Swaim received bonuses of $12,457, $1,607 and $4,829 in November 2005, February and April 2006 respectively.

Mr S Luscombe received bonuses of $4,780, $10,000 and $14,000 in November 2005, January and May 2006 respectively.

Mr Y Isoda received bonuses of $25,212 in November 2005, January and April 2006.

iv. In line with performance based elements of the contracts with key management personnel, bonuses were granted during the year ended 30 June 2005 ($138,219). 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.

5. Employee share option plan

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

The options granted expire within three years of the grant date or when an employee ceases employment with the company, whichever is the earlier.

The following share-based payment arrangements were in existence at the end of the period:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Issued 15 January 2004	366,667	01/12/03	30/11/06	$0.50	-
Issued 30 September 2005 – 1	1,400,000	30/09/05	30/09/09	$0.30	$0.036
Issued 30 September 2005 – 2	1,400,000	30/09/05	30/09/10	$0.40	$0.019
Issued 30 September 2005 – 3	1,400,000	30/09/05	30/09/11	$0.50	$0.012
Total	**4,566,667**				

All options issued during and since the end of the financial year are subject to vesting rules based on meeting revenue and profit growth targets. At the date of this report none of the options detailed above had vested.

The weighted average fair value of the share options granted during the financial year is $0.022 (2005: Nil). Options were priced using the Black Scholes Model.

Inputs into the model	Option series: 30 September 2005-1	30 September 2005-2	30 September 2005-3
Grant date share price	$0.30	$0.30	$0.30
Exercise price	$0.30	$0.40	$0.50
Expected volatility	17.5%	17.5%	17.5%
Option life	4 years	5 years	6 years
Dividend yield	-	-	-
Risk-free interest rate	5.02%	5.02%	5.02%

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

	2006		2005	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	1,163,335	$0.50	1,465,335	$0.50
Granted during the financial year	4,200,000	$0.40	-	$0.40
Forfeited during the financial year	(224,000)	-	(233,000)	-
Exercised during the financial year (i)	-	-	-	-
Expired during the financial year	(572,668)	$0.50	(69,000)	$0.50
Balance at end of the financial year	4,566,667	$0.41	1,163,335	$0.50
Exercisable at end of the financial year	4,566,667	$0.41	1,163,335	$0.50

(i) Exercised during the financial year

No share options granted under the Employee Share Option Plan were exercised during the financial year ended 30 June 2006 (30 June 2005: Nil).

6. Remuneration of auditors

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Auditor of the parent entity				
Audit or review of the financial report	72,300	62,000	10,000	10,000
	72,300	62,000	10,000	10,000

The auditor of Ellex Medical Lasers Limited is Deloitte Touche Tohmatsu.

7. Trade and other receivables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current				
Trade receivables (i)	6,688	3,676	-	-
Allowance for doubtful debts	(97)	(105)	-	-
	6,591	3,571	-	-
Sundry deposits recoverable	153	154	-	-
Other receivables	60	523	-	-
Goods and services tax (GST) recoverable	67	30	-	-
	6,871	4,278	-	-
Non Current				
Receivable from controlled entity	-	-	4,627	4,529
	-	-	4,627	4,529

(i) The average credit period on sales of goods is 75 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
8. Other current financial assets				
At fair value:				
Foreign currency forward contracts	46	44	-	-
	46	44	-	-
9. Current inventories				
Raw materials:				
At cost	4,118	3,528	-	-
At net realisable value	57	183	-	-
Work in progress:				
At cost	1,603	1,260	-	-
At net realisable value	7	8	-	-
Finished goods:				
At cost	6,275	5,651	-	-
At net realisable value	28	129	-	-
	12,088	10,759	-	-
10. Other current assets				
Prepayments	562	452	-	-
	562	452	-	-
11. Other non-current financial assets				
Investment in controlled entity	-	-	24,231	24,231
	-	-	24,231	24,231

12. Property, plant and equipment

	Consolidated				
	Freehold land $'000	Buildings $'000	Plant and equipment at cost $'000	Equipment under finance lease at cost $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2004	740	1,941	3,169	219	6,069
Additions	-	7	425	75	507
Disposals	-	-	(17)	-	(17)
Net foreign currency exchange differences	-	-	(77)	-	(77)
Balance at 1 July 2005	740	1,948	3,500	294	6,482
Additions	-	-	862	33	895
Disposals	(740)	(1,948)	(411)	-	(3,099)
Net foreign currency exchange differences	-	-	7	-	7
Balance at 30 June 2006	-	-	3,958	327	4,285
Accumulated depreciation/ amortisation and impairment					
Balance at 1 July 2004	-	(133)	(1,270)	(54)	(1,457)
Disposals	-	-	2	-	2
Depreciation expense	-	(49)	(472)	(52)	(573)
Net foreign currency exchange differences	-	-	16	-	16
Balance at 1 July 2005	-	(182)	(1,724)	(106)	(2,012)
Disposals	-	202	276	-	478
Depreciation expense	-	(20)	(482)	(19)	(521)
Net foreign currency exchange differences	-	-	-	-	-
Balance at 30 June 2006	-	-	(1,930)	(125)	(2,055)
Net book value					
As at 30 June 2005	740	1,766	1,776	188	4,470
As at 30 June 2006	-	-	2,028	202	2,230

The company has no property, plant & equipment at 30 June 2006.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Buildings	20	49	-	-
Plant and equipment	482	472	-	-
Equipment under finance lease	19	52	-	-
	521	573	-	-

13. Goodwill

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Gross carrying amount				
Balance at beginning of financial year	18,844	18,844	-	-
Balance at end of financial year	18,844	18,844	-	-
Accumulated impairment losses				
Balance at beginning of financial year	-	-	-	-
Impairment losses for the year	-	-	-	-
Balance at end of financial year	-	-	-	-
Net book value				
At the beginning of the financial year	18,844	18,844	-	-
At the end of the financial year	18,844	18,844	-	-

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to 2 individual cash-generating units as follows:

Individual cash-generating units

- Ellex US Inc.
- Ellex Medical Pty Ltd

During the financial year the consolidated entity assessed the recoverable amount of goodwill and determined that there has been no impairment.

The carrying amount of goodwill allocated to cash-generating units that are significant individually or in aggregate is as follows:

	Consolidated	
	2006 $'000	2005 $'000
Ellex US Inc.	3,876	3,876
Ellex Medical Pty Ltd	14,968	14,968
	18,844	18,844

Ellex Medical Pty Ltd

The recoverable amount of the Ellex Medical Pty Limited operations is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.10% p.a. (2005: 15.10 % p.a.). This discount rate has been determined on a real (that is, inflation affected), pre financing and pre tax basis. Cash flows beyond that five year period have been extrapolated using a steady growth rate which is considered realistic given the growth potential of the industry in which Ellex operates. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex Medical Pty Limited operations-global carrying amount to exceed its recoverable amount.

Ellex US Inc

The recoverable amount of the Ellex US operations is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15.10% p.a. (2005: 15.10% p.a.). This discount rate has been determined on a real (that is, inflation affected), pre financing and pre tax basis. Using a discount rate consistent with Ellex Medical Pty Limited is considered reasonable. Cash flows beyond that five year period have been extrapolated using a steady growth rate which is considered realistic given the growth potential of the industry in which Ellex US operates. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex US Inc carrying amount to exceed its recoverable amount.

13. Goodwill (cont'd)

Key assumptions:

The key assumptions used in the value in use calculations for Ellex Medical Pty Limited and Ellex US are as follows:

Key assumption:	Ellex Medical Pty Ltd	Ellex US Inc
Cash flow trends	Ellex has traditionally generated strong cash flows from its operating activities. Over the past two years, cash flow has been negative as the business has reinvested funds into product development and the establishment of a distribution business in Japan. As at June 2005, the Japanese business has passed the breakeven point and is now making a positive contribution to the bottom line. No adjustment has been made for any one-off items in forecast cash flows as it is not considered appropriate for valuation purposes.	Positive track record is considered a reasonable source of information to indicate the potential to generate a positive cash flow.
Market share and gross margin	Based on a five year plan and a steady growth for the five subsequent years.	Based on a five year plan and a steady growth for the five subsequent years.

Impact of possible changes in key assumptions

The recoverable amount of goodwill of the Ellex US CGU is estimated to be $3,951,000. This exceeds the carrying amount of the CGU's goodwill at 30 June 2006 by $75,000.

If the pre-tax discount rate applied to the cash flow projections of the Ellex US CGU was 15.5% instead of 15.1%, the recoverable amount of the CGU's goodwill would equal its carrying amount.

14. Other intangible assets

	Consolidated		
	Capitalised development $'000	Patents $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2004	1,807	96	1,903
Additions	-	1	1
Additions from internal developments	2,106	-	2,106
Balance at 1 July 2005	3,913	97	4,010
Additions	-	19	19
Additions from internal developments	1,326	-	1,326
Balance at 30 June 2006	5,239	116	5,355
Accumulated amortisation and impairment			
Balance at 1 July 2004	-	(67)	(67)
Amortisation expense	(82)	(1)	(83)
Balance at 1 July 2005	(82)	(68)	(150)
Amortisation expense	(277)	(1)	(278)
Balance at 30 June 2006	(359)	(69)	(428)
Net book value			
As at 30 June 2005	3,831	29	3,860
As at 30 June 2006	4,880	47	4,927

15. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in notes 17 and 21 to the financial statements, all non-current assets of the consolidated entity, have been pledged as security.

	Consolidated		Consolidated	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

16. Current trade and other payables

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables (i)	3,944	2,474	-	-
Accruals	1,150	965	-	-
Payable to directors	152	242	-	-
Other payables	283	177	-	-
	5,529	3,858	-	-

(i) The average credit period on purchases of certain goods from the invoice date is 55 days

17. Current borrowings

Secured

At amortised cost:

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Bank overdrafts (note 35a)	560	1,485	-	-
Commercial Bills	1,500	1,500	-	-
Finance lease liabilities (note 31)	76	73	-	-
Other – Finance Advance	59	68	-	-
	2,195	3,126	-	-

18. Current provisions

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employee benefits	602	524	-	-
Warranty (note 24)	275	261	-	-
	877	785	-	-

19. Other current liabilities

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Deferred grant income	365	254	-	-
	365	254	-	-

20. Current tax liabilities

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Other – current tax liabilities (Australia)	75	-	99	-
Other – current tax liabilities (USA)	-	2	-	-
	75	2	99	-

21. Non-current borrowings

Secured

At amortised cost:

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Bank loans	-	2,000	-	-
Finance lease liabilities (note 31)	58	137	-	-
	58	2,137	-	-

22. Non-current provisions

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employee benefits	214	157	-	-
	214	157	-	-

23. Other non-current liabilities

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Deferred grant income	2,019	1,840	-	-
	2,019	1,840	-	-

24. Provisions

	Consolidated Warranty $'000
Balance at 1 July 2005	261
Additional provisions recognised	200
Payments made	(182)
Reductions arising from payments/other sacrifices of future economic benefits	(4)
Balance at 30 June 2006	275

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. Issued capital

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
61,236,853 fully paid ordinary shares (2005: 61,236,853)	27,985	27,985	27,985	27,985
	27,985	27,985	27,985	27,985

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

	2006		2005	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
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.

Share options

572,668 unquoted employee options exercisable over ordinary shares at $0.50 each expired on 25 November 2005.

366,667 (2005: 590,667) 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.

1,400,000 (2005: Nil) unquoted employee options exercisable over ordinary shares at $0.30 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

1,400,000 (2005: Nil) unquoted employee options exercisable over ordinary shares at $0.40 each and expiring 30 September 2010 were on issue and were not exercised at the end of the financial year.

1,400,000 (2005: Nil) unquoted employee options exercisable over ordinary shares at $0.50 each and expiring 30 September 2011 were on issue and were not exercised at the end of the financial year.

Ellex Medical Lasers Limited share options carry no rights to dividends and no voting rights. Further details of the Employee Share Option Plan are contained in notes 4 and 5 to the financial statements.

26. Reserves

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Share option reserve				
Balance at beginning of financial year	-	-	-	-
Movements – Employee Share based payments	52	-	-	-
Balance at end of financial year	52	-	-	-

The share option reserve arises on the grant of share options to executives under the executive share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 5 to the financial statements.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Foreign currency translation reserve				
Balance at beginning of financial year	(386)	-	-	-
Translation of foreign operations	88	(386)	-	-
Balance at end of financial year	(298)	(386)	-	-

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

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Net reserves	(246)	(386)	-	-

27. Retained earnings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of financial year	3,712	3,083	886	792
Net profit attributable to members of the parent entity	3,693	629	(111)	94
Balance at end of financial year	7,405	3,712	775	886

28. Earnings per share

	Consolidated	
	2006 Cents per share	2005 Cents per share
Basic earnings per share:		
Total basic earnings per share	6.02	1.03
Diluted earnings per share:		
Total diluted earnings per share	5.75	1.03

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:

	2006 $'000	2005 $'000
Earnings (a)	3,693	629
	2006 No.	**2005 No.**
Weighted average number of ordinary shares for the purposes of basic earnings per share	61,236,853	61,236,853

(a) Earnings used in the calculation of total basic earnings per share and basic earnings per share reconciles to net profit in the income statement as follows:

	Consolidated	
	2006 $'000	2005 $'000
Net profit (excluding gain on sale of property, plant and equipment)	2,023	629
Gain on sale of property, plant and equipment	1,670	-
Earnings used in the calculation of basic EPS	3,693	629

Diluted earnings per share

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

	2006 $'000	2005 $'000
Earnings (a)	3,693	629
	2006 No.	**2005 No.**
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b), (c)	64,172,221	61,236,853

(a) Earnings used in the calculation of total diluted earnings per share and diluted earnings per share reconciles to net profit in the income statement as follows:

	2006 $'000	2005 $'000
Net profit	3,693	629
Earnings used in the calculation of diluted EPS	3,693	629

(b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

28. Earnings per share (cont'd)

	Consolidated 2006 No.	Consolidated 2005 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	61,236,853	61,236,853
Shares deemed to be issued for no consideration in respect of:		
Employee options	2,935,368	-
Weighted average number of ordinary shares used in the calculation of diluted EPS	64,172,221	61,236,853

(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2006 No.	2005 No.
Options which have a share price below the exercise price	-	1,163,335
	-	1,163,335

(d) Total earnings per share include the gain from sale of property, plant and equipment of $1,670,000. Following is the split for both basic and diluted earnings per share highlighting the impact of the gain on the sale of property plant and equipment:

	Consolidated 2006 Cents per share	Consolidated 2005 Cents per share
Basic earnings per share:		
From earnings excluding the gain on property, plant and equipment	3.30	1.03
From gain on sale of property, plant and equipment	2.72	-
Total basic earnings per share	6.02	1.03
Diluted earnings per share:		
From earnings excluding the gain on property, plant and equipment	3.15	1.03
From gain on sale of property, plant and equipment	2.60	-
Total diluted earnings per share	5.75	1.03

29. Dividends

	2006		2005	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Company 2006 $'000	Company 2005 $'000
Adjusted franking account balance	2,932	2,711

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

Disclosures for lessees

Finance leases

Leasing arrangements

Finance leases relate to motor vehicles and plant and equipment with lease terms of between 4 to 5 years. The consolidated entity has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

Finance lease liabilities

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Not longer than 1 year	86	86	-	-
Longer than 1 year and not longer than 5 years	61	147	-	-
Longer than 5 years	-	-	-	-
Minimum lease payments	147	233	-	-
Less future finance charges	(13)	(23)	-	-
Present value of minimum lease payments	134	210	-	-
Included in the financial statements as:				
Current borrowings (note 17)	76	73	-	-
Non-current borrowings (note 21)	58	137	-	-
	134	210	-	-

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. On sale of the building in Adelaide, Ellex Medical Pty Ltd has a lease agreement of 5 years with the option to renew for a further 5 years.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Non-cancellable operating lease payments				
Not longer than 1 year	701	346	-	-
Longer than 1 year and not longer than 5 years	1,735	71	-	-
	2,436	417	-	-

32. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2006 %	Ownership interest 2005 %
Parent entity			
Ellex Medical Lasers Limited	Australia		
Subsidiaries			
Ellex Medical Pty Ltd	Australia	100	100
Laserex Medical Pty Ltd, formerly Ellex R & D Pty Ltd	Australia	100	100
Ellex (USA) Inc, formerly Laserex Medical Inc	USA	100	100
ResDev Labs Inc	USA	100	100
Ellex (Japan) Corporation, formerly Laserex 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 income statement and balance sheet in this annual report.
The secondary segment of the consolidated group is geographical as indicated below:

Segment revenues

	Revenue from External customers		Segment Assets		Acquisition of segment assets	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Australia	1,525	3,417	36,993	34,792	848	489
USA	13,998	14,382	2,394	3,353	9	-
Europe	8,886	5,561	-	-	-	-
Japan	6,470	2,521	7,089	5,325	38	18
Asia	2,362	828	-	-	-	-
Other	1,343	230	-	-	-	-
Total of all segments	34,584	26,939	46,476	43,470	895	507

Products and services within each business segment

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

- Australia — The consolidated entity manufactures all of 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 Americas.
- Europe — The consolidated entity sells a broad range of its products in Europe and the Middle East. From 1 June 2006, the Service department has based a local representative in France.
- 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

Equity interests in subsidiaries

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

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

34. Related party disclosures (cont'd)

(c) Key management personnel equity holdings

Fully paid ordinary shares of Ellex Medical Lasers Limited

2006	Balance@ 1/7/05	Granted as compensation	Exercised	Net other change	Balance@ 30/06/06	Balance held nominally
	No.	No.	No.	No.	No.	No.
V Previn	3,266,034	-	-	300,000	3,566,034	-
P Falzon	620,000	-	-	140,000	760,000	-
A Sundich	2,350,501	-	-	1,049,499	3,400,000	2,400,000
K McGuinness	60,000	-	-	160,000	220,000	-
A Kalatzis	47,379	-	-	60,000	107,379	-
C Warren	-	-	-	-	-	-
M Plunkett	50,000	-	-	-	50,000	-
	6,393,914	-	-	1,709,499	8,103,413	2,400,000

At commencement of the financial year and at the date of his resignation,
D Lindh (22 July 2005) had 654,072 shares.

Fully paid ordinary shares of Ellex Medical Lasers Limited

2005	Balance@ 1/7/04	Granted as compensation	Exercised	Net other change	Balance@ 30/06/05	Balance held nominally
	No.	No.	No.	No.	No.	No.
V Previn	3,164,034	-	-	102,000	3,266,034	-
P Falzon	-	-	-	620,000	620,000	-
D Lindh	654,072	-	-	-	654,072	-
K McGuinness	60,000	-	-	-	60,000	-
A Kalatzis	28,000	-	-	19,379	47,379	-
	3,906,106	-	-	741,379	4,647,485	-

Executive share options of Ellex Medical Lasers Limited

2006	Balance@ 1/7/05	Granted as compensation	Exercised	Net other change	Balance@ 30/06/06	Balance held nominally
	No.	No.	No.	No.	No.	No.
P Falzon	150,000	2,200,000	-	(150,000)	2,200,000	-
K McGuinness	150,000	1,000,000	-	(150,000)	1,000,000	-
A Kalatzis	133,334	200,000	-	(66,667)	266,667	-
B Potter	-	200,000	-	-	200,000	-
B Swaim	50,000	-	-	-	50,000	-
M Plunkett	-	200,000	-	-	200,000	-
	483,334	3,800,000	-	(366,667)	3,916,667	-

Executive share options of Ellex Medical Lasers Limited

2005	Balance@ 1/7/04	Granted as compensation	Exercised	Net other change	Balance@ 30/06/05	Balance held nominally
	No.	No.	No.	No.	No.	No.
V Previn	3,500,000	-	-	(3,500,000)	-	-
D Lindh	1,202,000	-	-	(1,202,000)	-	-
K Johnson	50,000	-	-	(50,000)	-	-
P Falzon	150,000	-	-	-	150,000	-
K McGuinness	150,000	-	-	-	150,000	-
A Kalatzis	133,334	-	-	-	133,334	-
B Swaim	50,000	-	-	-	50,000	-
J Orkizsewski	30,000	-	-	(30,000)	-	-
	5,265,334	-	-	(4,782,000)	483,334	-

34. Related party disclosures (cont'd)

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

(d) Transactions with other related parties

Other related parties include:

- the parent entity;
- entities with joint control or significant influence over the consolidated entity;
- associates;
- joint ventures in which the entity is a venturer;
- subsidiaries;
- key management personnel of the consolidated entity
- other related parties.

Amounts payable to and receivable from these related parties are disclosed in note 16 (V Previn – 2006: $151,727, 2005: $241,727) and note 7 to the financial statements. All loans advanced to and payable to related parties are unsecured.

35. Notes to the cash flow statement

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	-	-	1	-
Bank overdraft (note 17)	(560)	(1,485)	-	-
	(560)	(1,485)	1	-
(b) Financing facilities				
Secured bank loan facilities with various maturity dates through to September 2007 and which may be extended by mutual agreement:				
• amount used	2,060	4,985	-	-
• amount unused	4,940	4,015	-	-
	7,000	9,000	-	-
(c) Reconciliation of profit for the period to net cash flows from operating activities				
Profit/(loss) for the period	3,693	629	(111)	94
Depreciation and amortisation of non-current assets	799	651	-	-
Employee share options	52	-	-	-
Interest income received and receivable	(9)	(19)	-	-
Increase/(decrease) in tax balances	(72)	(470)	210	(94)
Gain on sale of building	(1,670)	3	-	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(2,593)	(1,025)	-	-
Non-current receivables	-	-	(99)	-
Current inventories	(1,329)	(1,361)	-	-
Other current assets	(112)	(230)	-	-
Increase/(decrease) in liabilities:				
Current payables	1,671	(517)	-	-
Other current & non current liabilities	441	1,560	-	-
Net cash from operating activities	871	(779)	-	-

36. Financial instruments

(a) Financial risk management objectives

The consolidated entity's Finance function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of directors and audit committee, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

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

- Forward exchange contracts
- Collar options

(b) 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 income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency swap agreements.

Forward foreign exchange contracts

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

As at reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is $46,028 (2005: unrealised gains of $43,930).

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

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2006	2005	2006 FC'000	2005 FC'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Sell US Dollars								
Less than 3 months	0.7307	0.7227	350	450	479	636	8	47
3 to 6 months	0.7377	-	200	-	271	-	1	-
Longer than 6 months	0.7214	-	300	-	416	-	10	-
	0.7299	0.7227	850	450	1,166	636	19	47

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

36. Financial instruments (cont'd)

Collar options

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

Outstanding contracts	Put Average Strike Rate 2006	Put Average Strike Rate 2005	Call Average Strike Rate 2006 $	Call Average Strike Rate 2005 $	Contract value 2006 $'000	Contract value 2005 $'000	Fair value 2006 $'000	Fair value 2005 $'000
Sell US Dollars								
Not longer than 1 year	0.748	0.707	0.795	0.710	1,617	845	15	-
Longer than 1 year	0.733	0.690	0.780	0.711	646	141	12	-
					2,263	986	27	-

(d) Interest rate risk management

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

Maturity profile of financial instruments

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

2006	Average Interest Rate $'000	Variable Interest Rate $'000	Fixed Interest Rate Maturity: Less than 1 year $'000	Fixed Interest Rate Maturity: 1 to 5 years $'000	Fixed Interest Rate Maturity: More than 5 years $'000	Non-Interest Bearing $'000	Total $'000
Financial Liabilities							
Bank overdraft	9.70%	560	-	-	-	-	560
Commercial Bills	7.75%	-	1,500	-	-	-	1,500
Finance Lease & Advance	7.50%	-	135	58	-	-	193
		560	1,635	58	-	-	2,253

2005	Average Interest Rate $'000	Variable Interest Rate $'000	Fixed Interest Rate Maturity: Less than 1 year $'000	Fixed Interest Rate Maturity: 1 to 5 years $'000	Fixed Interest Rate Maturity: More than 5 years $'000	Non-Interest Bearing $'000	Total $'000
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
		1,485	1,641	2,137	-	-	5,263

36. Financial instruments (cont'd)

(e) Credit risk management

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

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

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

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

(f) Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

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

- the 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 fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Transaction costs are included in the determination of net fair value.

The following tables detail the fair value (2005: net fair value) of financial assets and financial liabilities:

2006	Carrying amount $'000	Fair value $'000
Financial assets		
Not Readily Traded – Foreign Exchange Contracts	46	46
	46	46

2005	Carrying amount $'000	Fair value $'000
Financial assets		
Not Readily Traded – Foreign Exchange Contracts	44	47
	44	47

(g) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

37. Impacts of the adoption of 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 AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer note 1(u)).

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

37. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

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

		Consolidated			Company		
	Note	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current assets							
Cash & cash equivalents		756	-	756	-	-	-
Trade & other receivables		3,220	-	3,220	4,529	-	4,529
Derivatives		77	-	77	-	-	-
Inventories		9,398	-	9,398	-	-	-
Other		222	-	222	-	-	-
Total current assets		13,673	-	13,673	4,529	-	4,529
Non-current assets							
Other financial assets		-	-	-	24,231	-	24,231
Intangibles – Capitalised Development Expenditure	e	-	1,800	1,800	-	-	-
Property, plant and equipment		4,611		4,611	-	-	-
Deferred tax assets	d	1,155	(253)	902	17	-	17
Intangibles		18,844	-	18,844	-	-	-
Other intangible assets		31	-	31	-	-	-
Total non-current assets		24,641	1,547	26,188	24,248	-	24,248
Total assets		38,314	1,547	39,861	28,777	-	28,777
Current liabilities							
Trade & other payables		4,376	-	4,376	-	-	-
Borrowings		92	-	92	-	-	-
Current tax payables		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	28,777	-	28,777
Equity							
Share capital		27,984	-	27,984	27,985	-	27,985
Foreign currency translation reserve	a	(517)	517	-	-	-	-
Retained earnings	g	3,011	73	3,084	792	-	792
Total equity		30,478	590	31,068	28,777	-	28,777

* Reported financial position for the financial year ended 30 June 2004.

37. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

		Consolidated			Company		
	Note	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Revenue	e, f	28,456	(1,244)	27,212			
Other income	c	-	107	107	-	-	-
Changes in inventories of finished goods and work in progress		981	-	981	-	-	-
Raw materials and consumables used	e	(14,485)	363	(14,122)	-	-	-
Employee benefits expense	e	(9,319)	1,687	(7,632)	-	-	-
Legal fees		(68)	-	(68)			
Depreciation and amortisation expense	b, e	(1,681)	1,030	(651)	-	-	-
Advertising and marketing expenses		(802)	-	(802)	-	-	-
Borrowing costs		(394)	-	(394)	-	-	-
Product development expenses	e	(637)	56	(581)	-	-	-
Other expenses		(3,238)	-	(3,238)	-	-	-
Profit before income tax expense		(1,187)	1,999	812	-	-	-
Income tax (benefit)/expense	d	85	(268)	(183)	1,229	(1,135)	(94)
Profit from continuing operations		(1,102)	1,731	629	1,229	(1,135)	(94)
Profit from discontinued operations		-	-	-	-	-	-
Profit for the period		(1,102)	1,731	629	1,229	(1,135)	(94)
Profit attributable to minority interest		-	-	-	-	-	-
Profit attributable to members of the parent entity		(1,102)	1,731	629	1,229	(1,135)	(94)

* Reported financial results for the year ended 30 June 2005.

37. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 30 June 2005

		Consolidated			Company		
	Note	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current assets							
Trade & other receivables		4,278	-	4,278	-	-	-
Derivatives		44	-	44	-	-	-
Inventories		10,759	-	10,759	-	-	-
Current tax assets		55	-	55	-	-	-
Other		452	-	452	-	-	-
Total current assets		15,588	-	15,588	-	-	-
Non-current assets							
Trade & other receivables					4,529	-	4,529
Other financial assets		-	-	-	24,231	-	24,231
Property, plant and equipment		4,470	-	4,470	-	-	-
Capitalised development expenditure	e	-	3,831	3,831	-	-	-
Deferred tax assets	d	1,229	(521)	708	1,246	(1,135)	111
Goodwill	b	17,739	1,105	18,844	-	-	-
Other intangible assets		29	-	29	-	-	-
Total non-current assets		23,467	4,415	27,882	30,006	(1,135)	28,871
Total assets		39,055	4,415	43,470	30,006	(1,135)	28,871
Current liabilities							
Trade & other payables		3,858	-	3,858	-	-	-
Borrowings		3,126	-	3,126	-	-	-
Current tax payables		2	-	2	-	-	-
Provisions		785	-	785	-	-	-
Other	f	-	2,094	2,094	-	-	-
Total current liabilities		7,771	2,094	9,865	-	-	-
Non-current liabilities							
Trade & other payables					-	-	-
Borrowings		2,137	-	2,137	-	-	-
Provisions		157	-	157	-	-	-
Total non-current liabilities		2,294	-	2,294	-	-	-
Total liabilities		10,065	2,094	12,159	-	-	-
Net assets		28,990	2,321	31,311	30,006	(1,135)	28,871
Equity							
Share capital		27,985		27,985	27,985	-	27,985
Foreign currency translation reserve	a	(903)	517	(386)	-	-	-
Retained earnings	g	1,908	1,804	3,712	2,021	(1,135)	886
Total Equity		28,990	2,321	31,311	30,006	(1,135)	28,871

* Reported financial position for the financial year ended 30 June 2005.

37. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences 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 (company: Nil) 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.

(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 $1,105,000 (company: Nil) and a corresponding increase in net profit before tax. 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) Revenue

Other income has been reclassified from revenue which has the effect of reducing revenue by $107,000 for the year ending 30 June 2005.

(d) 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 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.

Under A-IFRS, deferred tax balances of wholly-owned subsidiaries in a tax-consolidated group are generally not recognised by the head entity. These balances were recognised under the superseded policies.

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

	Consolidated		Company	
	1 July 2004 $'000	30 Jun 2005 $'000	1 July 2004 $'000	30 Jun 2005 $'000
Deferred tax expense not recognised under previous GAAP	(253)	(521)	-	-
Impact of UIG 1052	-	-	-	(1,135)
Net increase/(decrease) in deferred tax balances	(253)	(521)	-	(1,135)

The effect on consolidated profit for the financial year ended 30 June 2005 was to decrease previously reported income tax expense by $268,000 (company: Nil).

37. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(e) 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 satisfied 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 year to 30 June 2005 a further $2,107,000 of costs met the criteria for deferral with $76,000 of costs amortised. A corresponding adjustment was made to the profit and loss.

(f) Government Grants

As at the 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 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 $50,000 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:

		Consolidated		Company	
	Note	1 Jul 2004 $'000	30 Jun 2005 $'000	1 Jul 2004 $'000	30 Jun 2005 $'000
Transfer from foreign currency translation reserve	a	(517)	(517)	-	-
Goodwill no longer amortised	b	-	1,105	-	-
Intangible assets	e	1,800	3,831	-	-
Government grants	f	(957)	(2,094)	-	-
Adjustments to tax balances	d	(253)	(521)	-	-
Total adjustment to retained earnings		73	1,804	-	-
Attributable to members of the parent entity		73	1,804	-	-

38. Additional company information

Ellex Medical Lasers Limited is a listed public company, incorporated in Australia and operating in Australia, North America and Japan.

Registered office and Principal place of business

Ellex Medical Lasers Limited
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39. Subsequent Events

On 21 August 2006, the Company announced that it had signed a Memorandum of Understanding to acquire the business and assets of Coherent Lasers (Australia) Pty Ltd. The acquisition is expected to be finalised by 30 September 2006. The acquisition price is not of a material amount.