



2007 ANNUAL REPORT

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Directors

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

Company Secretary

Kevin McGuinness BAA, ACA

Registered Office

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

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Facsimile	+61 8 8221 5651

Auditors

Deloitte Touche Tohmatsu
 190 Flinders Street
 Adelaide South Australia 5000

Legal Advisors

Thomson Playford
 101 Pirie Street
 Adelaide South Australia 5000

Share Registry

Computershare Investor Services Pty Limited
 Level 5, 115 Grenfell Street
 Adelaide SA 5000

GPO Box 1903
 Adelaide SA 5001

Enquiries within Australia	1300 556 161
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Email	webenquiries@computershare.com.au
Website	www.computershare.com.au

Website

www.ellex.com

Stock Exchange

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

ASX Code

ELX - Ordinary Shares

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Annual Financial Report for the financial year ended 30 June 2007

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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 9 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.

Given the size of the organisation a small Board is considered appropriate. As such, compliance with all aspects of ASX Corporate Governance Best Practice is not practical. This will be reviewed by the Board continuously in light of growth and capacity of the organisation.

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated 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. In addition, the company pays compulsory superannuation. 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.

Corporate Governance Statement

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 (Chairman of Audit Committee)

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
- 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, 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.

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.

Corporate Governance Statement

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.

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2007. 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 Chairman	Victor Previn is 49 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 CEO	Peter Falzon is 44 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 Non-Executive Director	Alex Sundich is 43 years old and was appointed a non-executive director on 22 July 2005. Alex is currently the Chief Operating Officer of Mariner Financial Ltd. Prior to this, Alex was CFO of Record Investments Limited and was an investment banker involved in Mergers & Acquisitions and capital raisings.

The above named directors held office during and since the end of the financial year.

Company Secretary

Kevin P McGuinness COO	Kevin McGuinness is 40 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 18 years senior financial management experience in public and privately owned companies.
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Principal activities

Ellex Medical Lasers Limited is a global leader in the design and manufacture of lasers and ultrasound systems used by ophthalmologists to diagnose and treat eye disease.

Review of operations

The consolidated profit after tax and minority interests for the year was \$4.4 million. This compares to \$3.7 million for FY06.. Excluding one-off items, NPAT from on-going operations was \$2.5 million compared to \$2.0 million in FY06 year. The result for the year ended 30 June 2007 includes a tax benefit of \$1.9 million relating to prior year tax losses in Japan being brought to account given this operation is now profitable. Reported profit for FY06 included profit on sale of the company's head office in Adelaide of \$1.7 million

The year ended 30 June 2007 saw Ellex achieve 28% growth in revenue and a 30% growth in earnings before tax (excluding the profit on sale of the company's head office in Adelaide in 2006). Ellex completed its transition away from reliance on OEM revenue with only 4% of revenue coming from this source compared to 20% in FY06.

During the year, two strategic acquisitions were completed. In October 2006, Ellex acquired an Australian distributor of ophthalmic equipment, Coherent Lasers, to establish Ellex Australia Pty Ltd as a direct sales channel for its home market.

In December 2006, the acquisition of Innovative Imaging, Inc was completed. The acquisition of this company, which manufactures an ophthalmic ultrasound device was the first step in Ellex expanding beyond ophthalmic lasers into the broader ophthalmic device market. Both acquisitions were integrated successfully into the Ellex business during FY07.

Ellex Japan continues to show strong growth and is now solidly profitable. Our European sales channel also continues to perform solidly. Ellex is now turning its attention to the US and development of its direct sales channel and marketing infrastructure in the USA to drive growth in this market.

In June 2007 Ellex completed a \$5.5 million share placement at \$0.85 per share. \$2.7 million of these funds were received prior to 30 June 2007 with the balance to be received in July 2007. These funds are to be used to retire debt arising from the acquisition described above and increased investment in working capital.

Directors' Report

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.

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 2007 (30 June 2006: Nil).

Share options

Share options granted to directors and executives

During and since the end of the financial year there have been 366,664 share options granted to directors and executives of the company and the consolidated entity as part of their remuneration.

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
D Watton	133,332	Ellex Medical Lasers Limited	133,332
L Hall	133,332	Ellex Medical Lasers Limited	133,332
H Pummer	100,000	Ellex Medical Lasers Limited	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 been 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	1,000,000	Ordinary	\$0.30	30/09/2009
Ellex Medical Lasers Limited	199,998	Ordinary	\$0.70	30/09/2009
Ellex Medical Lasers Limited	1,333,333	Ordinary	\$0.40	30/09/2010
Ellex Medical Lasers Limited	1,333,333	Ordinary	\$0.50	30/09/2011
Ellex Medical Lasers Limited	166,666	Ordinary	\$0.90	30/09/2010

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 to directors and executives 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
Ellex Medical Lasers Limited	400,000	Ordinary	\$0.30	NIL

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' 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, eight board meetings and two audit committee meetings were held.

Directors	Board of Directors		Audit Committee	
	Held	Attended	Held	Attended
V Previn	8	8	2	2
P Falzon	8	8	N/A	N/A
A Sundich	8	8	2	2

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	-

Directors' Report

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

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
- Don Watton – VP Global Service
- Herbert Pummer – VP Operations
- Athy Kalatzis – VP Business Development
- Simon Luscombe – General Manager, Ellex Australia
- Levi Hall – VP Corporate Communications
- Anthony Stevens – VP Engineering
- 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
	Cash salary & fees	Profit sharing & bonuses	Non-monetary benefits	Pension & superannuation	Other	Equity settled - Options	Cash settled		
2007	\$	\$	\$	\$	\$	\$	\$	\$	\$
V Previn	193,332	-	-	17,400	1,375	-	-	-	212,107
P Falzon	222,669	23,857	5,351	7,157	-	-	-	-	259,034
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
TOTAL	441,001	23,857	5,351	26,807	1,375	-	-	-	498,391

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

2007	Short term employee benefits			Post employment benefits		Share based payments		Other long term benefits	Total
	Cash salary & fees	Profit sharing & bonuses	Non-monetary benefits	Pension & super-annuation	Other	Equity settled - Options	Cash settled		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Y Isoda	214,631	113,947	12,122	-	-	-	-	-	340,700
C Warren	232,807	64,997	-	-	-	-	-	-	297,804
B Swaim	217,037	3,309	25,957	24,966	-	-	-	-	271,269
H Pummer	229,031	12,724	687	5,196	-	6,177	-	-	253,815
S Luscombe	122,955	69,047	-	16,532	-	-	-	-	208,534
TOTAL	1,016,461	264,024	38,766	46,694	-	6,177	-	-	1,372,122

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:

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at the date of lapse	Total value of options granted, exercised and lapsed
	\$	\$	\$	\$
K McGuinness	-	14,440	-	14,440
D Watton	7,128	-	-	7,128
L Hall	7,128	-	-	7,128
H Pummer	6,177	-	-	6,177
B Potter	-	2,407	(2,067)	340

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

Directors' Report

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 15 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 2007

Independence Declaration to the directors of Ellex Medical Lasers Limited

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

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

22 August 2007

Dear Board Members

Re: 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 2007, 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



J J Handel
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report to the members of Ellex Medical Lasers Limited

We have audited the accompanying financial report of Ellex Medical Lasers Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 17 to 63.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

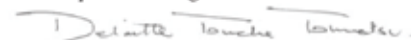
Auditor's Independence Declaration

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

Auditor's 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 and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



J J Handel
Partner
Chartered Accountants
Adelaide, 22 August 2007

Liability limited by a scheme approved under Professional Standards Legislation.

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

A handwritten signature in black ink, appearing to read 'V. Previn', with a long horizontal flourish extending to the right.

Victor Previn
Chairman
Adelaide, 22 August 2007

Income Statement for the financial year ended 30 June 2007

	Note	Consolidated		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue	2	44,421	34,593	-	-
Other income	2	1,534	506	-	-
Gain on sale of property, plant and equipment	2	-	1,670	-	-
Changes in inventories of finished goods and work in progress		2,479	865	-	-
Raw materials and consumables used		(25,567)	(18,138)	-	-
Employee benefits expense	2	(12,447)	(9,803)	-	-
Legal fees	2	(31)	(33)	-	-
Depreciation and amortisation expense	2	(1,275)	(799)	-	-
Advertising and marketing expenses		(1,644)	(1,109)	-	-
Finance costs	2	(514)	(358)	-	-
Product development costs		(488)	(326)	-	-
Other expenses		(3,644)	(3,229)	-	-
Profit before income tax	2	2,824	3,839	-	-
Income tax benefit/(expense)	3	1,544	(146)	-	(111)
Profit for the year		4,368	3,693	-	(111)
Attributable to:					
Equity holders of the parent		4,267	3,693	-	-
Minority Interest		101	-	-	-
		4,368	3,693	-	-
Earnings per share:					
Basic (cents per share)	28	6.84	6.02		
Diluted (cents per share)	28	6.28	5.75		

Balance Sheet as at 30 June 2007

	Note	Consolidated		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets					
Cash & cash equivalents	35	2,740	-	5	1
Trade and other receivables	7	11,763	6,871	2,805	-
Other financial assets	8	167	46	-	-
Inventories	9	14,729	12,088	-	-
Current tax assets		365	-	-	-
Other	10	651	562	-	-
Total current assets		30,415	19,567	2,810	1
Non-current assets					
Trade and Other Receivables	7	153	-	7,400	4,627
Other financial assets	11	-	-	24,395	24,231
Property, plant and equipment	12	2,732	2,230	-	-
Deferred tax assets	3	2,986	908	-	-
Goodwill	13	21,465	18,844	-	-
Other intangible assets	14	5,936	4,927	-	-
Total non-current assets		33,272	26,909	31,795	28,858
Total assets		63,687	46,476	34,605	28,859
Current liabilities					
Trade and other payables	16	8,381	5,529	187	-
Borrowings	17	5,131	2,195	-	-
Current tax payables	20	254	75	99	99
Provisions	18	1,078	877	-	-
Other liabilities	19	378	365	-	-
Total current liabilities		15,222	9,041	286	99
Non-current liabilities					
Borrowings	21	1,220	58	-	-
Provisions	22	270	214	-	-
Other liabilities	23	3,595	2,019	-	-
Total non-current liabilities		5,085	2,291	-	99
Total liabilities		20,307	11,332	286	99
Net assets		43,380	35,144	34,319	28,760
Equity					
Issued capital	25	33,544	27,985	33,544	27,985
Reserves	26	(1,957)	(246)	-	-
Retained earnings	27	11,672	7,405	775	775
		43,259	35,144	34,319	28,760
Equity attributable to equity holders of the parent		43,259	35,144	34,319	28,760
Minority interest		121	-	-	-
Total equity		43,380	35,144	34,319	28,760

Statement of Recognised Income and Expense for the financial year ended 30 June 2007

	Note	Consolidated		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Translation of foreign operations:					
Exchange differences taken to equity	26	(1,747)	88	-	-
Net income recognised directly in equity		(1,747)	88	-	-
Profit for the period		4,368	3,693	-	(111)
Total recognised income and expense for the period		2,621	3,781	-	(111)
Attributable to:					
Equity holders of the parent		2,500	3,781	-	(111)
Minority interest		121	-	-	-
		2,621	3,781	-	(111)

Cash Flow Statement for the financial year ended 30 June 2007

	Note	Consolidated		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash flows from operating activities					
Receipts from customers		44,152	31,987	-	-
Grant income received		252	722	-	-
Payments to suppliers and employees		(41,256)	(31,271)	-	-
Interest received		17	9	-	-
Interest and other costs of finance paid		(514)	(358)	-	-
Income tax paid		(720)	(218)	-	-
Net cash provided by/(used in) operating activities	35	1,931	871	-	-
Cash flows from investing activities					
Payments for capitalised development expenditure		(883)	(1,326)	-	-
Payment for property, plant and equipment		(1,074)	(895)	-	-
Payment for long-term deposits		(153)	-	-	-
Payment for acquisition of businesses		(2,052)	-	-	-
Proceeds from sale of property, plant and equipment		-	4,291	-	-
Payment for intangible assets		(116)	(19)	-	-
Net cash (used in)/provided by investing activities		(4,278)	2,051	-	-
Cash flows from financing activities					
Proceeds from issues of equity		2,741	-	2,741	-
Payment for share issue costs		(7)	-	(193)	-
Proceeds from borrowings		4,900	-	-	1
Repayment of leases		(73)	(85)	-	-
Repayment of borrowings		(167)	(2,000)	(2,544)	-
Net cash provided by/(used in) financing activities		7,394	(2,085)	4	1
Net increase/(decrease) in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year					
Effects of exchange rate changes on the balance of cash held in foreign currencies		(560)	(1,485)	1	-
		(1,747)	88	-	-
Cash and cash equivalents at the end of the financial year					
	35	2,740	(560)	5	1

Notes to the Financial Statements for the financial year ended 30 June 2007

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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.

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Group's accounting policies and have not affected the amounts reported for the current or prior years.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- | | |
|--|--|
| • AASB 7 'Financial Instruments: Disclosures and consequential amendments to other accounting standards resulting from its issue | Effective for annual reporting periods beginning on or after 1 January 2007 |
| • AASB 101 'Presentation of Financial Statements' – revised standard | Effective for annual reporting periods beginning on or after 1 January 2007 |
| • Interpretation 10 'Interim Financial Reporting and Impairment' | Effective for annual reporting periods beginning on or after 1 November 2006 |

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2007 and the comparative information presented in these financial statements for the year ended 30 June 2006.

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) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Notes to the Financial Statements

1. Summary of accounting policies (cont'd)**(b) Business combinations (cont'd)**

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Cash and cash equivalents

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

(d) 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.

(e) Employee benefits

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

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

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

Contributions to defined contribution super plans are expensed when incurred.

(f) 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.

(g) Financial instruments issued by the companyDebt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

1. Summary of accounting policies (cont'd)

(g) Financial instruments issued by the company (cont'd)

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(h) Foreign currency

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.

- i. 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. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

Goodwill 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.

(i) 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.

(j) 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. If the recoverable amount of the Cash Generating Unit (CGU) or group of CGUs is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. Refer also note 1(l).

(k) 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

Notes to the Financial Statements

1. Summary of accounting policies (cont'd)**(k) Government grants (cont'd)**

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.

(l) 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.

(m) Income taxCurrent tax

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

Deferred tax

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

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

1. Summary of accounting policies (cont'd)

(m) Income tax (cont'd)

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.

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.

(n) 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;

Notes to the Financial Statements

1. Summary of accounting policies (cont'd)

(n) Intangible assets (cont'd)

- 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.

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

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

(o) 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.

(p) 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.

(q) Principles of consolidation

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

1. Summary of accounting policies (cont'd)

(q) Principles of consolidation (cont'd)

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

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

(r) Property, plant and equipment

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line 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

(s) Provisions

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

Warranties

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

(t) Revenue recognition

Sale of goods

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

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(u) Share-based payments

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

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

(v) Critical judgements

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

Notes to the Financial Statements

1. Summary of accounting policies (cont'd)

(v) Critical judgements (cont'd)

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

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Previously unused tax losses

In 2007, Japan has started to become profitable, and is expected to continue in this manner. Tax losses are recognised as deferred tax assets in the accounts (as per note 3) as they are expected to be utilised.

Earn-outs of goodwill to previous owners of businesses acquired

Calculations of the earn-outs to the previous owners of the businesses acquired during the year (as per note 37) have been made by management based on performance during the year, and budgeted performance over the 3 years of the earn-out clauses in the acquisition contracts.

2. Profit from operations**(a) Revenue**

Revenue from continuing operations consisted of the following items:

Revenue from the sale of goods

Interest revenue:

Other entities

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue from the sale of goods	44,404	34,584	-	-
Interest revenue:				
Other entities	17	9	-	-
	44,421	34,593	-	-
(b) Profit before income tax				
Gain on disposal of property, plant and equipment	-	1,670	-	-
	-	1,670	-	-
Other Income				
Net foreign exchange gains	436	67	-	-
R&D Income	647	332	-	-
Other income	451	107	-	-
	1,534	506	-	-

2. Profit from operations (cont'd)

Profit before income tax has been arrived at after charging the following expenses. The line items below are attributable to continuing operations:

Cost of goods sold

Finance costs:

Finance leases

Interest on loans

Total interest expense

Net bad and doubtful debts arising from:

Other entities

Depreciation of property, plant and equipment

Amortisation of intangible assets

Total research and development costs
(including employee costs less capitalised costs)

Operating lease rental expenses:

Minimum lease payments

Employee benefit expense:

Share based payments:

Equity settled share based payments

Post employment benefits:

Defined contribution plans

Other employee benefits

Plant and Equipment

Written down value of property, plant and equipment
disposed of

Legal fees

Inventory write-down to net realisable value

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cost of goods sold	24,851	19,472	-	-
Finance costs:				
Finance leases	15	17	-	-
Interest on loans	499	341	-	-
Total interest expense	514	358	-	-
Net bad and doubtful debts arising from:				
Other entities	1	-	-	-
	1	-	-	-
Depreciation of property, plant and equipment	693	521	-	-
Amortisation of intangible assets	582	278	-	-
	1,275	799	-	-
Total research and development costs (including employee costs less capitalised costs)	1,321	814	-	-
Operating lease rental expenses:				
Minimum lease payments	788	260	-	-
Employee benefit expense:				
Share based payments:				
Equity settled share based payments	36	52	-	-
Post employment benefits:				
Defined contribution plans	618	521	-	-
Other employee benefits	11,793	9,230	-	-
	12,447	9,803	-	-
Plant and Equipment				
Written down value of property, plant and equipment disposed of	-	2,529	-	-
Legal fees	31	33	-	-
Inventory write-down to net realisable value	-	4	-	-

Notes to the Financial Statements

3. Income taxes**(a) Income tax recognised in profit or loss****Tax expense comprises:**

Current tax expense/(benefit)

Deferred (benefit)/tax expense

Total tax (benefit)/ expense

Attributable to:

Continuing operations

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

Income tax expense calculated at 30%

Capital loss brought to account

Non-deductible expenses

Effect of higher tax rates of tax on overseas income
(USA, Japan and Europe)

Impact of adopting tax consolidation during the prior period

Amortisation of Intellectual Property

Previously unrecognised & unused tax losses
now recognised as deferred tax assetsUnused tax losses and tax offsets not recognised
as deferred tax assets

Other – R & D Tax Concession

Other

Under/(over) provision of income tax in previous year

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current tax expense/(benefit)	534	346	-	-
Deferred (benefit)/tax expense	(2,078)	(200)	-	111
Total tax (benefit)/ expense	(1,544)	146	-	111
Attributable to:				
Continuing operations	(1,544)	146	-	111
	(1,544)	146	-	111
Profit from operations	2,824	3,839	-	-
Income tax expense calculated at 30%	847	1,151	-	-
Capital loss brought to account	-	(181)	-	-
Non-deductible expenses	14	12	-	-
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	255	45	-	-
Impact of adopting tax consolidation during the prior period	-	-	-	111
Amortisation of Intellectual Property	(251)	(613)	-	-
Previously unrecognised & unused tax losses now recognised as deferred tax assets	(1,850)	-	-	-
Unused tax losses and tax offsets not recognised as deferred tax assets	2	452	-	-
Other – R & D Tax Concession	(267)	-	-	-
Other	(320)	(301)	-	-
Under/(over) provision of income tax in previous year	26	(419)	-	-
	(1,544)	146	-	111

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

(b) Deferred tax balances**Deferred tax assets comprise:**

Temporary differences

Unused tax losses - Japan

Deferred tax liabilities comprise:

Temporary differences

Temporary differences	2,715	2,409	-	-
Unused tax losses - Japan	1,850	-	-	-
	4,565	2,409	-	-
Temporary differences	1,579	1,501	-	-
	1,579	1,501	-	-

3. Income taxes (cont'd)

Taxable and deductible temporary differences arise from the following:

	Consolidated						
	Opening balance	Charged to income	Charged to equity	Acquisitions/disposals	Exchange differences	Changes in tax rate	Closing balance
2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax assets:							
Intellectual Property	501	-	-	-	-	-	501
R & D Grant Payable	751	(9)	-	-	-	-	742
Employee entitlement provision	235	49	-	-	-	-	284
Previously unused tax losses	-	1,850	-	-	-	-	1,850
Other	290	(39)	-	-	-	-	251
Temporary timing difference on unearned profits	632	305	-	-	-	-	937
	2,409	2,156	-	-	-	-	4,565
Gross deferred tax liabilities							
Capitalised R & D	1,464	87	-	-	-	-	1,551
Other	37	(9)	-	-	-	-	28
	1,501	78	-	-	-	-	1,579
Net deferred tax	908	2,078	-	-	-	-	2,986

	Consolidated						
	Opening balance	Charged to income	Charged to equity	Acquisitions/disposals	Exchange differences	Changes in tax rate	Closing balance
2006	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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
Temporary 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

Notes to the Financial Statements

3. Income taxes (cont'd)

	Company						
	Opening balance	Charged to income	Charged to equity	Acquisitions/disposals	Exchange differences	Changes in tax rate	Closing balance
2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax assets:							
Other	-	-	-	-	-	-	-
Net deferred tax	-	-	-	-	-	-	-
2006							
Gross deferred tax assets:							
Other	111	(111)	-	-	-	-	-
Net deferred tax	111	(111)	-	-	-	-	-

Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

Timing difference – Intellectual Property
Tax losses – revenue (Japan)

Consolidated		Company	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000
3,729	4,167	-	-
-	1,850	-	-
3,729	6,017	-	-

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.

Tax Audit

The Australian Tax Office is currently conducting a routine tax audit on the company for the financial years 2004 and 2005. There is no reason to believe the audit will reveal any material discrepancy

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
- Bill Swaim – President, Ellex (USA) Inc
- Yukitaka Isoda – President, Ellex (Japan) Inc
- Kevin McGuinness – Chief Financial Officer/Chief Operating Officer
- Herbert Pummer – VP Operations
- Athy Kalatzis – VP Business Development
- Simon Luscombe – General Manager Ellex Australia
- Don Watton – VP Global Service
- Levi Hall – VP Corporate Communications
- Anthony Stevens – VP Engineering
- 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		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short-term employee benefits	2,532,337	1,991,368	-	-
Post-employment benefits	156,984	128,218	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	20,433	34,295	-	-
	2,709,754	2,153,881	-	-

Notes to the Financial Statements

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		
2007	\$	\$	\$	\$	\$	\$	\$	\$	\$
V Previn	193,332	-	-	17,400	1,375	-	-	-	212,107
P Falzon (ii)	222,669	23,857	5,351	7,157	-	-	-	-	259,034
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
K McGuinness	153,503	-	25,174	14,201	10,969	-	-	-	203,847
A Kalatzis	144,464	-	-	13,002	5,279	-	-	-	162,745
H Pummer (i) (v)	229,031	12,724	687	5,196	-	6,177	-	-	253,815
C Warren (iii)	232,807	64,997	-	-	-	-	-	-	297,804
B Swaim (iii)	217,037	3,309	25,957	24,966	-	-	-	-	271,269
S Luscombe (iii)	122,955	69,047	-	16,532	-	-	-	-	208,534
L Hall (i) (v)	142,508	6,362	8,420	6,833	-	7,128	-	-	171,251
D Watton (iv)	114,679	735	-	10,321	-	7,128	-	-	132,863
A Stevens (iv) (v)	124,422	10,792	11,818	12,302	9,201	-	-	-	168,535
Y Isoda (iii)	214,631	113,947	12,122	-	-	-	-	-	340,700
	2,137,038	305,770	89,529	130,160	26,824	20,433	-	-	2,709,754

	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

4. Key management personnel compensation (cont'd)

- i. During the year ended 30 June 2007, key management personnel were granted options on 5 July 2006. Further details of the options are contained in note 5 to the financial statements. 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. In 2007, bonuses of \$7,952 and \$15,905 were paid in August 2006 and February 2007. 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 years ended 30 June 2007 & 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 in 2007 of: \$12,460, \$35,923 and \$16,614 in September 2006, January and May 2007 (2006: \$28,049 and \$16,249 in January and May 2006) respectively.

Mr B Swaim received bonuses in 2007 of: \$3,309 in February 2007 (2006: \$12,457, \$1,607 and \$4,829 in November 2005, February and April 2006 respectively).

Mr S Luscombe received bonuses in 2007 of: \$5,000, \$41,324 and \$22,723 in September 2006, February and June 2007 (2006: \$4,780, \$10,000 and \$14,000 in November 2005, January and May 2006) respectively.

Mr Y Isoda received bonuses in 2007 of: \$21,463, \$21,463, \$32,570 and \$38,451 in August, November 2006, February and June 2007 (2006: \$25,212 in November 2005, January and April 2006) respectively.
- iv. A general bonus was paid to staff during the year ended 30 June 2007, with key management personnel participating.
- v. 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 2007 based on specific criteria for departmental performances during the year.

5. Executive 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 30 September 2005 – 1	1,000,000	30/09/05	30/09/09	\$0.30	\$0.036
Issued 30 September 2005 – 2	1,333,333	30/09/05	30/09/10	\$0.40	\$0.019
Issued 30 September 2005 – 3	1,333,334	30/09/05	30/09/11	\$0.50	\$0.012
Issued 5 July 2006 – 1	199,998	05/07/06	30/09/09	\$0.70	\$0.119
Issued 5 July 2006 – 2	166,666	05/07/06	30/09/10	\$0.90	\$0.062
Total	4,033,331				

Notes to the Financial Statements

5. Executive share option plan (cont'd)

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.

The weighted average fair value of the share options granted during the financial year is \$0.050 (2006: \$0.022). 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	5 July 2006-1	5 July 2006-2
Grant date share price	\$0.30	\$0.30	\$0.30	\$0.625	\$0.625
Exercise price	\$0.30	\$0.40	\$0.50	\$0.70	\$0.90
Expected volatility	17.5%	17.5%	17.5%	16%	16%
Option life	4 years	5 years	6 years	4 years	5 years
Dividend yield	-	-	-	-	-
Risk-free interest rate	5.02%	5.02%	5.02%	5.79%	5.79%

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:

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	4,566,667	\$0.41	1,163,335	\$0.50
Granted during the financial year	366,664	\$0.63	4,200,000	\$0.40
Forfeited during the financial year	-	-	(224,000)	-
Exercised during the financial year (i)	(690,066)	\$0.86	-	-
Expired during the financial year	(209,934)	\$0.50	(572,668)	\$0.50
Balance at end of the financial year	4,033,331	\$0.60	4,566,667	\$0.41
Exercisable at end of the financial year	4,033,331	\$0.60	4,566,667	\$0.41

(i) Exercised during the financial year

The following share options granted under the employee share option plan were exercised during the financial year:

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

2007 Options series	Number exercised	Exercise date	Share price at exercise date \$
Issued November 2003	290,067	30/11/06	\$0.81
Issued 30 September 2005 – 1	66,666	30/11/06	\$0.81
Issued 30 September 2005 – 1	333,333	09/02/07	\$0.90
Total	690,066		

Notes to the Financial Statements

6. Remuneration of auditors

Auditor of the parent entity

Audit or review of the financial report

Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$
113,750	72,300	10,000	10,000
113,750	72,300	10,000	10,000

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

7. Trade and other receivables

Current

Trade receivables (i)

Allowance for doubtful debts

Sundry deposits recoverable

Receivable – share placement

Other receivables

Goods and Services Tax (GST) recoverable

Consolidated		Company	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000
8,175	6,688	-	-
(94)	(97)	-	-
8,081	6,591	-	-
612	153	-	-
2,805	-	2,805	-
217	60	-	-
48	67	-	-
11,763	6,871	2,805	-
153	-	-	-
-	-	7,400	4,627
153	-	7,400	4,627

Non Current

Sundry deposits recoverable

Receivable from controlled entity

(i) The average credit period on sales of goods is 91 days (FY06: 75 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

8. Other current financial assets

At fair value:

Foreign currency forward contracts

Consolidated		Company	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000
167	46	-	-
167	46	-	-

Notes to the Financial Statements

9. Current inventories**Raw materials:**

At cost	
At net realisable value	

Work in progress:

At cost	
At net realisable value	

Finished goods:

At cost	
At net realisable value	

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
4,185	4,118	-	-
152	57	-	-
1,824	1,603	-	-
15	7	-	-
8,207	6,275	-	-
346	28	-	-
14,729	12,088	-	-

10. Other current assets

Prepayments

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
651	562	-	-
651	562	-	-

11. Other non-current financial assets

Investment in controlled entity

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
-	-	24,395	24,231
-	-	24,395	24,231

12. Property, plant and equipment

	Consolidated					Total \$'000
	Freehold land \$'000	Leasehold Improve- ments \$'000	Buildings \$'000	Plant and equipment at cost \$'000	Equipment under finance lease at cost \$'000	
Gross carrying amount						
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	-
Balance at 1 July 2006	-	-	-	3,958	327	4,285
Additions	-	70	-	946	58	1,074
Additions in business acquisitions	-	-	-	125	-	125
Disposals	-	-	-	(61)	-	(61)
Net foreign currency exchange differences	-	-	-	-	-	-
Balance at 30 June 2007	-	70	-	4,968	385	5,423
Accumulated depreciation/ amortisation and impairment						
Balance at 1 July 2005	-	-	(182)	(1,724)	(106)	(2,012)
Disposals	-	-	202	276	-	478
Depreciation expense	-	-	(20)	(482)	(19)	(521)
Balance at 1 July 2006	-	-	-	(1,930)	(125)	(2,055)
Disposals	-	-	-	21	-	21
Depreciation expense	-	(8)	-	(685)	-	(693)
Net foreign currency exchange differences	-	-	-	36	-	36
Balance at 30 June 2007	-	(8)	-	(2,558)	(125)	(2,691)
Net book value						
As at 30 June 2006	-	-	-	2,028	202	2,230
As at 30 June 2007	-	62	-	2,410	260	2,732

The parent company has no property, plant & equipment at 30 June 2007.

Notes to the Financial Statements

12. Property, plant and equipment (cont'd)

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

Buildings	-	20	-	-
Leasehold Improvements	8	-	-	-
Plant and equipment	685	482	-	-
Equipment under finance lease	-	19	-	-
	693	521	-	-

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
	-	20	-	-
	8	-	-	-
	685	482	-	-
	-	19	-	-
	693	521	-	-
	18,844	18,844	-	-
	2,621	-	-	-
	21,465	18,844	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	18,844	18,844	-	-
	21,465	18,844	-	-

13. Goodwill**Gross carrying amount**

Balance at beginning of financial year	18,844	18,844	-	-
Additions (note 37)	2,621	-	-	-
Balance at end of financial year	21,465	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	21,465	18,844	-	-

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to 4 individual cash-generating units as follows:

Individual cash-generating units (note 32 subsidiaries listing)

- Ellex Inc
- Ellex Medical Pty Ltd
- Innovative Imaging Inc
- Ellex Australia Pty Ltd

13. Goodwill (cont'd)

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	
	2007 \$'000	2006 \$'000
Ellex Inc	3,876	3,876
Ellex Medical Pty Ltd	14,968	14,968
Innovative Imaging Inc	1,856	-
Ellex Australia Pty Ltd	745	-
	21,445	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 15.37% p.a. (2006: 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 of 3% 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 Inc

The recoverable amount of the Ellex Inc 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 15.37% p.a. (2006: 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 of 3% which is considered realistic given the growth potential of the industry in which Ellex Inc operates. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex Inc carrying amount to exceed its recoverable amount.

Ellex Australia Pty Ltd

Ellex Australia was acquired during the financial year. At the time of acquisition, a value in use calculation which uses cash flow projections covering a five-year period, and a discount rate of 15.37% p.a was performed. 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. This operation has performed consistent with or above the cash flow projections prepared as part of the initial valuation. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Ellex Australia carrying amount to exceed its recoverable amount.

Notes to the Financial Statements

13. Goodwill (cont'd)**Innovative Imaging Inc**

Innovative Imaging was acquired during the financial year. At the time of acquisition, a value in use calculation which uses cash flow projections covering a five-year period, and a discount rate of 15.37% p.a was performed. 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. This operation has performed consistent with or above the cash flow projections prepared as part of the initial valuation. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the Innovate Imaging carrying amount to exceed its recoverable amount.

Key assumptions:

The key assumptions used in the value in use calculations for Ellex Medical Pty Limited, Ellex Inc, Ellex Australia Pty Ltd and Innovative Imaging Inc are as follows:

	Cash flow trends	Market share and gross margin
Ellex Medical Pty Ltd	Ellex has traditionally generated strong cash flows from its operating activities. In 2005 and 2006, cash flow was negative as the business reinvested funds into product development and the establishment of a distribution business in Japan. As at June 2005, the Japanese business had 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.	Based on a five year plan and a steady growth for the five subsequent years.
Ellex Inc	Positive track record is considered a reasonable source of information to indicate the potential to generate a positive cash flow, although in 2006 this was not the case, it is considered to be an unusual occurrence as significant investment was made in this business.	Based on a five year plan and a steady growth for the five subsequent years.
Ellex Australia Pty Ltd	Positive track record in 2007 is considered a reasonable source of information to indicate the potential to generate a positive cash flow.	Based on a five year plan and a steady growth for the five subsequent years.
Innovative Imaging Inc	Positive track record in 2007 is considered a reasonable source of information to indicate the potential to generate a positive cash flow.	Based on a five year plan and a steady growth for the five subsequent years.

14. Other intangible assets

	Consolidated		
	Capitalised development	Patents	Total
	\$'000	\$'000	\$'000
Gross carrying amount			
Balance at 1 July 2005	3,913	97	4,010
Additions	-	19	19
Additions from internal developments	1,326	-	1,326
Balance at 1 July 2006	5,239	116	5,355
Additions	-	116	116
Additions through business acquisitions (note 37)	592	-	592
Additions from internal developments	883	-	883
Balance at 30 June 2007	6,714	232	6,946
Accumulated amortisation and impairment			
Balance at 1 July 2005	(82)	(68)	(150)
Amortisation expense	(277)	(1)	(278)
Balance at 1 July 2006	(359)	(69)	(428)
Amortisation expense	(570)	(12)	(582)
Balance at 30 June 2007	(929)	(81)	(1,010)
Net book value			
As at 30 June 2006	4,880	47	4,927
As at 30 June 2007	5,785	151	5,936

The parent entity has no intangible assets at 30 June 2007.

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.

Notes to the Financial Statements

16. Current trade and other payables

Trade payables (i)				
Payable to previous owners of acquisitions (note 37)				
Accruals				
Payable to directors				
Other payables				

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
5,688	3,944	-	-
673	-	-	-
1,148	1,150	187	-
75	152	-	-
797	283	-	-
8,381	5,529	187	-

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

17. Current borrowings**Secured****At amortised cost:**

Bank overdrafts (note 35a)				
Commercial Bills				
Finance lease liabilities (note 31)				
Other – Finance Advance				

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
-	560	-	-
5,000	1,500	-	-
76	76	-	-
55	59	-	-
5,131	2,195	-	-

18. Current provisions

Employee benefits				
Warranty (note 24)				

872	602	-	-
206	275	-	-
1,078	877	-	-

19. Other current liabilities

Deferred grant income				
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378	365	-	-
378	365	-	-

20. Current tax liabilities

Other – current tax liabilities (Australia)				
---	--	--	--	--

254	75	99	99
254	75	99	99

Notes to the Financial Statements

21. Non-current borrowings**Secured****At amortised cost:**

Commercial Bills
Finance lease liabilities (note 31)

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
1,180	-	-	-
40	58	-	-
1,220	58	-	-
<hr/>			
270	214	-	-
270	214	-	-
<hr/>			
1,437	-	-	-
2,158	2,019	-	-
3,595	2,019	-	-

22. Non-current provisions

Employee benefits

23. Other non-current liabilities

Payable to previous owners of acquisitions (note 37)

Deferred grant income

24. Provisions

Balance at 1 July 2006
Additional provisions recognised
Payments made
Reductions arising from payments/other sacrifices of future economic benefits
Balance at 30 June 2007

Consolidated
Warranty \$'000
275
293
(362)
-
206

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

68,397,507 fully paid ordinary shares
(2006: 61,236,853)

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
33,544	27,985	33,544	27,985
33,544	27,985	33,544	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.

Notes to the Financial Statements

25. Issued capital (cont'd)**Fully paid ordinary shares**

Balance at beginning of financial year
 Issued Shares – capital raising
 Issued Shares – options exercised
 Share issue costs
 Balance at end of financial year

Consolidated 2007		Company 2006	
No. '000	\$ '000	No. '000	\$ '000
61,237	27,985	61,237	27,985
6,471	5,500	-	-
690	252	-	-
-	(193)	-	-
68,398	33,544	61,237	27,985

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

Share options

Nil (2006: 366,667) unquoted employee options exercisable over ordinary shares at \$0.50 each and expiring 30 November 2006; 290,067 were exercised and 76,600 lapsed during the financial year.

1,000,000 (2006: 1,400,000) 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.

1,333,333 (2006: 1,400,000) 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.

1,333,334 (2006: 1,400,000) 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.

199,998 (2006: Nil) unquoted employee options exercisable over ordinary shares at \$0.70 each and expiring 30 September 2009 were on issue and were not exercised at the end of the financial year.

166,666 (2006: Nil) unquoted employee options exercisable over ordinary shares at \$0.90 each and expiring 30 September 2009 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**Share option reserve**

Balance at beginning of financial year
 Movements – Employee Share based payments
 Balance at end of financial year

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
52	-	-	-
36	52	-	-
88	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.

Notes to the Financial Statements

26. Reserves (cont'd)**Foreign currency translation reserve**

Balance at beginning of financial year

Translation of foreign operations

Balance at end of financial year

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(298)	(386)	-	-
(1,747)	88	-	-
(2,045)	(298)	-	-

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

Net reserves

(1,957)	(246)	-	-
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27. Retained earnings

Balance at beginning of financial year

Net profit attributable to members of the parent entity

Balance at end of financial year

Consolidated		Company	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
7,405	3,712	775	886
4,267	3,693	-	(111)
11,672	7,405	775	775

28. Earnings per share**Basic earnings per share:**

Total basic earnings per share

Diluted earnings per share:

Total diluted earnings per share

Consolidated	
2007 Cents per share	2006 Cents per share
6.84	6.02
6.28	5.75

Notes to the Financial Statements

28. Earnings per share (cont'd)**Basic earnings per share**

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

	Consolidated	
	2007	2006
	\$'000	\$'000
Earnings (a)	4,267	3,693
	2007	2006
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	62,347,075	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:

	2007	2006
	\$'000	\$'000
Net profit (excluding gain on sale of property, plant and equipment)	4,267	2,023
Gain on sale of property, plant and equipment	-	1,670
Earnings used in the calculation of basic EPS	4,267	3,693

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:

	2007	2006
	\$'000	\$'000
Earnings (a)	4,267	3,693
	2007	2006
	No.	No.
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b), (c)	67,986,985	64,172,221

28. Earnings per share (cont'd)

- (b) 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:

	Consolidated	
	2007 \$'000	2006 \$'000
Net profit	4,267	3,693
Earnings used in the calculation of diluted EPS	4,267	3,693

- (c) 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:

	2007 No.	2006 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	62,347,075	61,236,853
Shares deemed to be issued for no consideration in respect of:		
Employee options	5,639,909	2,935,368
Weighted average number of ordinary shares used in the calculation of diluted EPS	67,986,985	64,172,221

- (d) 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:

	2007 No.	2006 No.
Options which have a share price below the exercise price	-	-
	-	-

Notes to the Financial Statements

28. Earnings per share (cont'd)

(e) Total earnings per share in 2006 includes 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	
	2007 Cents per share	2006 Cents per share
Basic earnings per share:		
From earnings excluding the gain on property, plant and equipment	6.84	3.30
From gain on sale of property, plant and equipment	-	2.72
Total basic earnings per share	6.84	6.02
Diluted earnings per share:		
From earnings excluding the gain on property, plant and equipment	6.28	3.15
From gain on sale of property, plant and equipment	-	2.60
Total diluted earnings per share	6.28	5.75

29. Dividends**Fully paid ordinary shares**

Final dividend – franked to 30%

2007		2006	
Cents per Share	Total \$'000	Cents per Share	Total \$'000
Nil	Nil	Nil	Nil

Adjusted franking account balance

Company	
2007 \$'000	2006 \$'000
3,241	2,932

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	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Not longer than 1 year	83	86	-	-
Longer than 1 year and not longer than 5 years	42	61	-	-
Longer than 5 years	-	-	-	-
Minimum lease payments	125	147	-	-
Less future finance charges	(9)	(13)	-	-
Present value of minimum lease payments	116	134	-	-
Included in the financial statements as:				
Current borrowings (note 17)	76	76	-	-
Non-current borrowings (note 21)	40	58	-	-
	116	134	-	-

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	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Non-cancellable operating lease payments				
Not longer than 1 year	917	701	-	-
Longer than 1 year and not longer than 5 years	1,971	1,735	-	-
	2,888	2,436	-	-

Notes to the Financial Statements

32. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2007 %	2006 %
Parent entity			
Ellex Medical Lasers Limited	Australia		
Subsidiaries			
Ellex Medical Pty Ltd	Australia	100	100
Laserex Medical Pty Ltd	Australia	100	100
Ellex Inc (i)	USA	100	100
ResDev Labs Inc (ii)	USA	100	100
Ellex (Japan) Corporation	Japan	100	100
Ellex R&D Pty Ltd	Australia	100	-
Ellex Australia Pty Ltd (note 37)	Australia	80	-
Ellex Services Europe SARL	France	100	-
Innovative Imaging Inc (i) (note 37)	USA	100	-

(i) From 1 July 2007 Ellex (USA) Inc and Innovative Imaging, Inc merged to form Ellex (USA) Inc.

(ii) In July 2007, Resdev Labs Inc changed its name to Innovative Imaging, Inc.

33. Segment information

The primary segment of the consolidated group is the business of selling ophthalmic equipment, 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	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Australia	4,462	1,525	46,680	36,993	952	848
USA	11,202	13,998	6,784	2,394	181	9
Europe	11,360	8,886	156	-	2	-
Japan	10,993	6,470	10,067	7,089	64	38
Asia	2,538	2,362	-	-	-	-
Other	3,832	1,343	-	-	-	-
Total of all segments	44,421	34,584	63,687	46,476	1,199	895

33. Segment information (cont'd)

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. Ellex Australia Pty Ltd was established from 1 October 2006 and has sole distribution rights to Ellex and a number of other ophthalmic products to complete the full range.
- **USA** The consolidated entity has a distribution office based in Minneapolis, USA and sells a range of its products in the Americas. From 1 December 2006, Innovative Imaging Inc was acquired and ophthalmic ultrasounds were added to the sales base. Revenue for 2007 was \$3,027 (2006: Nil). These products are manufactured and sold from California. USA includes OEM products sold in the USA of \$1,562 in 2007 (2006: \$6,741).
- **Europe** The consolidated entity sells a broad range of its products in Europe and the Middle East. From 1 February 2007, an office and warehouse has been established in Clermont-Ferrand, France which includes a service department and office manager.
- **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.

(c) Key management personnel equity holdings

Fully paid ordinary shares of Ellex Medical Lasers Limited

	Balance@ 1/7/06	Granted as compensation	Options exercised	Net other change	Balance@ 30/06/07	Balance held nominally
2007	No.	No.	No.	No.	No.	No.
V Previn	3,566,034	-	-	-	3,566,034	3,566,034
P Falzon	760,000	-	-	-	760,000	-
A Sundich	3,400,000	-	-	-	3,400,000	2,400,000
K McGuinness	220,000	-	333,333	(50,000)	503,333	-
A Kalatzis	107,379	-	66,667	10,000	184,046	-
C Warren	-	-	-	31,700	31,700	-
B Swaim	-	-	50,000	-	50,000	-
D Watton	-	-	20,000	-	20,000	-
H Pummer	93,000	-	-	-	93,000	-
	8,146,413	-	470,000	(8,300)	8,608,113	5,966,034

Notes to the Financial Statements

34. Related party disclosures (cont'd)

Fully paid ordinary shares of Ellex Medical Lasers Limited

	Balance@ 1/7/05	Granted as compensation	Options exercised	Net other change	Balance@ 30/06/06	Balance held nominally
2006	No.	No.	No.	No.	No.	No.
V Previn	3,266,034	-	-	300,000	3,566,034	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	-
H Pummer	-	-	-	93,000	93,000	-
M Plunkett	50,000	-	-	-	50,000	-
	6,393,914	-	-	1,802,499	8,196,413	5,966,034

Executive share options of Ellex Medical Lasers Limited

	Balance@ 1/7/06	Granted as compensation	Exercised	Net other change	Balance@ 30/06/07	Balance held nominally
2007	No.	No.	No.	No.	No.	No.
P Falzon	2,200,000	-	-	-	2,200,000	-
K McGuinness	1,000,000	-	(333,333)	-	666,667	-
A Kalatzis	266,667	-	(66,667)	-	200,000	-
B Potter	200,000	-	(66,666)	(133,334)	-	-
B Swaim	50,000	-	(50,000)	-	-	-
L Hall	-	133,332	-	-	133,332	-
D Watton	-	133,332	-	-	133,332	-
H Pummer	-	100,000	-	-	100,000	-
	3,716,667	366,664	(516,666)	(133,334)	3,433,331	-

Executive share options of Ellex Medical Lasers Limited

	Balance@ 1/7/05	Granted as compensation	Exercised	Net other change	Balance@ 30/06/06	Balance held nominally
2006	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	-

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
- 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 – 2007: \$68,409 and A Sundich \$6,250, 2006: V Previn \$151,727 and A Sundich nil) 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

(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
Bank overdraft (note 17)

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
	2,740	-	5	1
	-	(560)	-	-
	2,740	(560)	5	1
	3,440	2,060	-	-
	4,460	4,940	-	-
	7,900	7,000	-	-

(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
- amount unused

Notes to the Financial Statements

35. Notes to the cash flow statement (cont'd)

	Consolidated		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(c) Reconciliation of profit for the period to net cash flows from operating activities				
Profit/(loss) for the period	4,368	3,693	-	(111)
Depreciation and amortisation of non-current assets	1,275	799	-	-
Employee share options	36	52	-	-
Interest income received and receivable	(17)	(9)	-	-
Increase/(decrease) in tax balances	(1,899)	(72)	-	210
Gain on sale of building	-	(1,670)	-	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(1,781)	(2,593)	-	-
Non-current receivables	-	-	-	(99)
Current inventories	(1,996)	(1,329)	-	-
Other current assets	(559)	(112)	-	-
Increase/(decrease) in liabilities:				
Current payables	2,059	1,671	-	-
Other current & non current liabilities	445	441	-	-
Net cash from operating activities	1,931	871	-	-

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 management 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

36. Financial instruments (cont'd)

(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 (2006: unrealised gains of \$43,930).

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

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2007	2006	2007 FC'000	2006 FC'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Sell US Dollars								
Less than 3 months	0.7201	0.7307	100	350	139	479	20	8
3 to 6 months	-	0.7377	-	200	-	271	-	1
Longer than 6 months	-	0.7214	-	300	-	416	-	10
	0.7201	0.7299	100	850	139	1,166	20	19

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.

Notes to the Financial Statements

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		Call Average Strike Rate		Contract value		Fair value	
	2007	2006	2007 \$	2006 \$	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Sell US Dollars								
Not longer than 1 year	0.7333	0.748	0.6903	0.795	646	1,617	75	15
Longer than 1 year	-	0.733	-	0.780	-	646	-	12
					646	2,263	75	27
Sell JPY Dollars								
Not longer than 1 year	94.875	-	92.625	-	2,383	-	72	-
Longer than 1 year	-	-	-	-	-	-	-	-
					2,383	-	72	-
Total					3,029	2,263	147	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.

2007	Fixed Interest Rate Maturity						Non-Interest Bearing \$'000	Total \$'000
	Average Interest Rate \$'000	Variable Interest Rate \$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000			
Financial Liabilities								
Commercial Bills	7.43%	-	5,000	1,180	-	-	-	6,180
Finance Lease Liabilities	7.84%	-	131	40	-	-	-	171
		-	5,131	1,220	-	-	-	6,351

36. Financial instruments (cont'd)

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

(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

The carrying amount of all financial assets and liabilities are recorded at their fair value.

(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. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Shares acquired %	Cost of acquisition \$'000
Coherent Lasers (Aust) Pty Ltd trading as Ellex Australia Pty Ltd	Distribution of ophthalmic equipment	1 October 2006	80	816
Innovative Imaging Inc	Manufacture & distribution of ophthalmic equipment	1 December 2006	100	3,516
				4,332

Notes to the Financial Statements

37. Acquisition of businesses (cont'd)

	Ellex Australia Pty Ltd			Innovative Imaging Inc			Total fair value on acquisition
	Book value	Fair value adjustment	Fair value on acquisition	Book value	Fair value adjustment	Fair value on acquisition	
Net assets acquired	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets							
Cash & cash equivalents	-	-	-	150	-	150	150
Trade & other receivables	-	-	-	306	-	306	306
Inventories	52	-	52	593	-	593	645
Other assets	-	-	-	16	-	16	16
Non-current assets							
Capitalised development costs	-	-	-	-	592	592	592
Property, plant & equipment	-	-	-	-	122	122	122
Current liabilities							
Trade & other payables	-	-	-	(120)	-	(120)	(120)
	52	-	52	945	714	1,659	1,711
Goodwill on acquisition							2,621
							4,332

The initial accounting for the acquisition of the Coherent Lasers (Aust) Pty Ltd and the establishment of Ellex Australia Pty Ltd has only been provisionally determined at reporting date. For tax purposes, the tax values of the assets have been reset based on market values and other factors. This company is not part of the consolidated group for tax consolidations purposes.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire both entities. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The Group also acquired the customer lists and customer relationships of both entities as part of the acquisition. These assets were not able to be reliably measured and separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

Establishment of new subsidiary – Ellex Australia and the acquisition of Coherent Laser business

Included in the net profit after tax for the period is \$405 thousand (after minority interest adjustment) attributable to the additional business generated by Ellex Australia Pty Ltd. Also, included in the goodwill is \$765 thousand attributable to Ellex Australia and an amount payable of \$497 thousand (discounted) to the previous owner based on forecast sales generated over the next 3 years, payable annually on anniversary dates.

Had this business combination been effected at the beginning of the year, the revenue of the Group would be increased by \$6 million, and net profit after tax of \$540 thousand (after minority interest adjustment). The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

37. Acquisition of businesses (cont'd)

Acquisition of new subsidiary – Innovative Imaging Inc

Included in the net profit for the period is \$682 thousand attributable to the additional business generated by Innovative Imaging, Inc. Also, included in the goodwill is \$1,614 thousand attributable to Innovative Imaging and an amount payable of \$1,614 thousand (discounted) to the previous owner based on forecast sales generated over the next 3 years, payable annually on anniversary dates.

Had this business combination been effected at the beginning of the year, the revenue of the Group would be increased by \$5.2 million, and net profit \$1,169 thousand. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Additional stock exchange information as at 20 September 2007

Number of holders of equity securities

Ordinary share capital

- 68,397,507 fully paid ordinary shares are held by 3,487 individual shareholders. All issued shares carry one vote per share.

Options

- 4,033,331 Employee options are held by 10 individual option holders. All options are subject to vesting rules based on meeting revenue and profit growth targets and expire between 31 August 2009 and 31 August 2011.

Options do not carry a right to vote.

Distribution of holders of equity securities

	Ordinary Shares	Employee Options
1 - 1,000	274,164	-
1,001 - 5,000	3,040,932	-
5,001 - 10,000	4,551,990	-
10,001 - 100,000	19,234,309	-
100,001 and over	41,296,112	10
	68,397,507	10

There were 1,098 holders of less than a marketable parcel of 596 ordinary shares.

Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
Citicorp Nominees Pty Limited <CFS Developng Companies A/C>	4,753,624	6.95%
Sedico Pty Ltd	3,566,034	5.21%
Alex Sundich	3,400,000	4.97%

Additional stock exchange information as at 20 September 2007

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid	
	Number	Percentage
ANZ Nominees Limited	6,104,361	8.92%
Citicorp Nominees Pty Limited <CFS Developng Companies A/C>	4,753,624	6.95%
Sedico Pty Ltd	3,566,034	5.21%
Intertec Healthcare Management LLC	2,730,000	3.99%
Pine Street Pty Ltd <Pine Street A/C>	2,400,000	3.51%
Mr Giuseppe Canala + Mrs Mira Canala <Giuseppe Canala S/F A/C>	1,799,630	2.63%
HSBC Custody Nominees (Aust) Limited	1,389,508	2.03%
National Nominees Limited Equip Super A/C	1,189,673	1.74%
Unley Underwriters Pty Limited	1,107,424	1.62%
Citicorp Nominees Pty Limited	1,006,222	1.47%
Mr Alex Sundich + Mrs Gabrielle Upton	1,000,000	1.46%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan Super Fund A/C	942,000	1.38%
Ms Choi Chu Lee	853,000	1.25%
Mr Anthony Mark Van Der Steeg	845,965	1.24%
Invia Custodian Pty Ltd	815,370	1.19%
Mr Peter Joseph Falzon	760,000	1.11%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan	610,000	0.89%
Mr Matthius Maus	600,000	0.88%
Forbar Custodians Limited <Forsyth Barr Ltd - nominee a/c>	511,898	0.75%
UBS Nominees Pty Ltd	504,036	0.74%
TOTAL	33,488,745	48.96%

Company secretary

Kevin McGuinness BA,ACA

Share registry

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