



82 Gilbert Street
Adelaide SA, 5000 Australia
ellex.com
☎ +61 8 8104 5200
☎ +61 8 8221 5651

Dear Shareholder,

The 2007 financial year represented a turning point for Ellex. With 96 percent of revenue derived from Ellex-branded products, we completed the transition away from our former reliance on OEM partners, and expect our OEM business to continue at the current level for the foreseeable future. Revenue derived from Ellex-brand products grew 55 percent over the previous year, proof that our customers are responding positively to our expanded product line, brand, and customer service initiatives. This is also reflected by our position as the world's fastest-growing provider of ophthalmic laser devices.

During the 2007 financial year, Ellex embarked on the second phase of our growth strategy; namely, to leverage our growing distribution platform through acquisitions. In October 2006, we announced the acquisition of Coherent Lasers Australia, a move that created a direct sales channel in the Australian market. This move also allowed us to bring together design, manufacturing, and customer relationships into one organization.

In December 2006, we acquired California-based Innovative Imaging, a profitable, best-in-class manufacturer of ophthalmic ultrasound devices. Integrating the Innovative Imaging product line into the Ellex sales channel began to produce positive results on our profit line towards the end of financial year 2007, and we expect this to continue into 2008 and beyond.

Reflecting our ongoing mission to help ophthalmologists fight blindness, our advanced research team began work on a potentially new, non-invasive treatment for Age-Related Macular Degeneration (AMD), the leading cause of blindness in the developed world. This work has been made possible, in part, through the assistance of A\$1.9 million AusIndustry Commercial Ready Grant.

Our Japanese and European sales operations continue to be the brightest spots on our global sales map, with continued growth and solid profitability occurring in Japan throughout the year. In Europe, we established a subsidiary in Clermont-Ferrand, France to provide timely technical and marketing support to our distribution partners in Europe, the Middle East and Africa. Midway through the year, we secured key product approvals in China and entered that market with a new distribution partner, positioning Ellex for growth in one of the key world markets for our products.

Finally, as the financial year came to a close, we announced the successful raising of A\$5.5 million in capital, which will be used to retire the debt incurred with the two acquisitions mentioned above, and to expand our sales presence in the United States. The U.S. is the largest market for our products, and our strategy to expand our presence there is the main sales and marketing initiative for the coming year. The capital raising capped off a year of accomplishment at Ellex that places the company in a position of strength, with revenue and profit growth projected into the 2008 financial year.



Please note that this year's enclosed Annual Report is simplified to include only required financial information and printed on light stock paper to reduce the cost of providing a printed version to our large shareholder base. The full color expanded annual report is available online at www.ellex.com.

Sincerely,

A handwritten signature in dark ink, appearing to read "V. Previn".

Victor Previn, Chairman

A handwritten signature in dark ink, appearing to read "Peter Falzon".

Peter Falzon, CEO