

PRESS RELEASE

Ellex Medical Lasers Ltd (ASX:ELX)

Adelaide, Australia

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Topic: Ellex FY08 Year End Results



Key Points

- **Revenue increased 13% over the prior comparable period to A\$50.3 million**
- **EBITDA decreased 15% compared with the prior comparable period to A\$3.9 million**
- **Pre-tax profit excluding one-off items of \$2.4 million, 16% below the prior comparable period**
- **Excluding one-off items, NPAT decreased 42% compared with the prior comparable period to A\$1.5 million from A\$2.5 million**
- **Reported NPAT grew to A\$4.8 million from A\$4.3 million in the prior comparable period including one-off items**
- **Initial transition to direct sales model in U.S.A. completed and improved performance expected in FY09**

Adelaide, Australia, 27 August 2008 – Ellex Medical Lasers Limited (ASX:ELX), a global leader in the design and manufacture of ophthalmic laser and ultrasound systems, today announced its financial results for the year ended 30 June 2008. The results demonstrate continued growth of the business, with revenues increasing by 13% over the previous financial year to \$50.3 million.

Despite this solid revenue growth, pre-tax profit for the year fell to \$1.9 million from \$2.8 million in the prior year, inline with the Company's announcement of 25 June 2008. Pre-tax profit included \$0.5 million of one-off costs associated with termination payments to former staff, provisions raised for the closure of the San Francisco office and an increase in the provision for warranty claims following a review of the adequacy of this provision. Excluding these costs pre-tax profit was \$2.4 million.

Commenting on the result, CEO Mr Kevin McGuinness said, "Whilst we continue to make progress in developing our business, as evidenced by solid revenue growth, we are disappointed with the profit result. We invested in the business based on a target growth rate in revenue that we did not achieve and, as a result, the profit result was well below our expectations."

"As detailed in recent announcements to the ASX, we have experienced subdued economic conditions, particularly in the U.S.; uncertainty in financial markets has directly affected trading, with customers deferring purchasing decisions. Furthermore, we have experienced unexpectedly strong competitive pressures which have impacted trading margins," Mr McGuinness added.

While the result for the second half of the year was well below our expectations, this followed a very soft third quarter. A considerable improvement was seen in the fourth quarter with sales revenue of \$13.9 million, 25% above that achieved in Q3 and 16% above Q4 of FY07.

Reported Net Profit after Tax of \$4.8 million includes previously unrecognised tax benefits of \$3.7 million. These tax benefits relate to an uplift in the value of intellectual property for tax purposes on joining the tax consolidation regime, and were previously reported as unrecognised deferred tax balances. The benefit has now been

recognised following the conclusion of a routine ATO audit that considered the application of the tax consolidation rules for Ellex among other matters, as reported to the ASX on 14 May 2008.

Positive results were achieved in a number of markets; particularly Australia, Japan and Europe where revenue growth rates of 36%, 25% and 17% respectively were realised. The result in Japan was particularly pleasing given the weakness of the Japanese Yen and the deteriorating economic environment during the year.

During FY08 the Company completed the transition to a partially direct sales model in the U.S. Ellex now has six direct sales representatives in key U.S. territories and continues to partner with a network of independent sales representatives in the remaining territories. Revenue growth of 10% for the year was below expectations, impacted by the timing of appointments, the poor economic environment and competitive pressures. The Company continues to view the U.S. market as a significant opportunity for future growth.

Commenting on the U.S. business, Mr McGuinness said, "We have now established a sound platform in the U.S.; each of our direct representatives has been on board for a minimum of three months, the sales results now being achieved give us confidence that the strategy in the U.S. can develop into a key platform for the future. Our focus in FY09 will be on ensuring we achieve traction from this initial investment before considering any further expansion in the U.S. operation."

The Company continued to invest in new product development in FY08, with approximately 8% of revenue directed to these activities. R&D activities have focused on the ongoing development of Ellex 2RT (Retinal Regeneration Therapy), the development of a new photocoagulator and further improvements to the Eye Cubed ultrasound product. These projects will continue to be the focus of R&D activities in FY09.

"Following the disappointing result achieved in FY08, the Company's key objective for FY09 is to restore profitability to an acceptable level through a more measured approach to business growth, and by refining the cost structures of the business to address short-term market challenges. We have implemented a number of initiatives to improve profitability and working capital management throughout FY09," Mr McGuinness said.

ABOUT ELLEX

Ellex Medical Lasers Limited (ASX:ELX) designs, manufactures and markets a complete line of lasers and diagnostic ultrasound systems used by ophthalmologists to diagnose and treat eye diseases. With more than 14,000 systems delivered to the market, Ellex has evolved since 1985 from a manufacturing company of primarily OEM products, to direct marketing of its own branded products through subsidiaries in the United States, Japan and Australia, and a network of distribution partners in more than 100 countries. Ellex maintains a strong emphasis on intellectual property and research into new and better treatments to manage and treat the leading causes of blindness.

For additional information about Ellex and its products, please visit www.ellex.com.

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