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6 March 2009

Mr. Justin Nelson  
Manager, Issuers (Adelaide)  
ASX Markets Supervision Pty Ltd  
GPO Box 547  
Adelaide  
SA 5000

By e-mail

Dear Mr. Nelson,

**Ellex Medical Lasers Ltd: Your letter of 5 March 09**

**BACKGROUND**

The management accounts for the 6 months ending 31 December 2008 became available on 30 January 2009, and were reviewed at the Board meeting that evening. The results indicated that the EBT for the half was \$1.4m, a number similar to the PCP. The expected impact of the mark-to-market unrealised foreign exchange loss stemming from foreign exchange hedging contracts had previously been released to the market on 19 December 2008 at \$3.4m loss, the actual result was \$3.6m. At this time, under continuous disclosure rules, the board assessed that the accounts were within 10% of the PCP results, except for the mark-to-market impact previously disclosed. The audit team from Deloitte arrived on 2 February 2009 to complete the half yearly review.

**RESPONSE TO QUESTIONS**

1. The issue of impairment was raised by the auditors and there were ongoing discussions between the company, auditors, external advisors and the bank from around mid-February until a decision was reached late on Wednesday 25<sup>th</sup> February 09, that a write-off of goodwill would be taken in the first half, and that it would significantly impact the reported profit. This was released to the market at noon the following day.
2. The write-off of goodwill was not triggered by a specific external event but a considered decision by the company as part of the half yearly review process. All intangible assets were reviewed for indicators of impairment and a process of reviewing future cash flows begun to support these balances. The market was notified immediately the decision was made, namely on 26 February 09 included in Appendix 4D.
3. Ellex Medical Lasers Ltd believes it is in compliance with the ASX listing rules and in particular listing rule 3.1.



4. The impact on our credit facilities was one of the many parameters considered during our review of the possible write-down of goodwill. It was not until we received a letter from our bank on 24 February 09 that we had the information regarding our banking covenants that we summarised in the release. The letter, along with other information and advice was reviewed by the company on 25 February 2009, resulting in the decision to write-down goodwill, which was communicated to the market the following day.

5. The receipt of the letter from the bank, the decision to proceed with the write down, and the announcement to the market; we believe, all occurred in a reasonable timeframe.

6. Yes.

7. Not Applicable.

I hope this detail gives clarity to the nature of the decisions taken and the sequence of events proceeding the release of Appendix 4D and financial statements.

Yours sincerely  
Ellex Medical Lasers Limited

A handwritten signature in black ink, appearing to read "Giuseppe Canala".

Giuseppe Canala  
Company Secretary



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5 March 2009

Giuseppe Canala  
 Company Secretary  
 Ellex Medical Lasers Limited  
 c/- Ellex Laser Systems  
 82 Gilbert Street  
 Adelaide SA 5000

By email: [gcanala@ellex.com](mailto:gcanala@ellex.com)

Dear Mr Canala,

**Ellex Medical Lasers Limited (the "Company")**

ASX Limited ("ASX") has conducted a review of the Company's Appendix 4D for the period ending 31 December 2008 released to the market on 26 February 2009.

The Appendix 4D announced the following results:

	Up/Down	Variation	Amount (\$000)
Loss for the period, before tax	Down	1,853%	(24,608)
Loss from ordinary activities after tax	Down	1,970%	(23,150)
Write-off of goodwill	Not relevant	Not relevant	(21,700)

The notes to the financial statements and the announcement accompanying the Appendix 4D ("Announcement") provide notification that there has been a breach of the capital adequacy (equity ratio) covenant during the period causing all debt to be classified as current. The Announcement states that "The Company's lender has responded and indicated that at this time the Bank intends to take no action in relation to these potential breaches for the 31 December 2008 period only, subject to their review of Ellex's facilities when the Bank is in possession of the 31 December 2008 audited financials and other necessary documents.

As you are aware, listing rule 3.1 requires an entity, once it becomes *aware* of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities," to immediately tell ASX that information. The exceptions to this requirement are set out in listing rule 3.1A.

I wish to draw your attention to the definition of "aware" in chapter 19 of the listing rules, which says as follows:

*"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity."*

**Australian Securities Exchange**

Australian Stock Exchange  
 Sydney Futures Exchange

Australian Clearing House  
 SFE Clearing Corporation

ASX Settlement and Transfer Corporation  
 Austraclear

In addition paragraph 18 of Guidance Note 8 states:

*"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."*

Furthermore, paragraph 4 of Example A in the Attachment to Guidance Note 8 illustrates by way of an example the requirement to make immediate disclosure where adjustments and write downs will result in a significant reduction in a company's profitability. Moreover, the Example makes specific reference to delaying the release of such information until the time of lodgement of the Preliminary Final Report as being not acceptable.

Having regard to the above, ASX requests that the Company respond to the following questions.

1. When did the Company first become aware that the write-off of goodwill would result in a significant reduction in the Company's result for the period ending 31 December 2008?
2. Given the magnitude of the write-off of goodwill reported in the Appendix 4D, why did the Company not provide guidance to the market prior to the release of its half year result?
3. Your comment is sought on whether the Company is in compliance with the listing rules and, in particular, listing rule 3.1.
4. When did the Company first become aware of the information in the Appendix 4D and Announcement concerning the Company's banking covenants?
5. If the Company became aware of the information in the Appendix 4D and Announcement in relation to the banking covenants prior to the release of the Appendix 4D and Announcement, please identify any earlier announcement from the Company which disclosed information in relation to the banking covenants.
6. Does the Company consider that the information in the Appendix 4D and Announcement concerning the Company's banking covenants was material to the Company?
7. If the answer to question 6, is "no", please advise the basis on which the Company does not consider the information in the Appendix 4D and Announcement concerning the Company's banking covenants to be material.


Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter. If the information requested by this letter is information required to be given to ASX under listing rule 3.1, your obligation is to disclose the information immediately.

Your response should be sent to me by e-mail at [justin.nelson@asx.com.au](mailto:justin.nelson@asx.com.au) or by facsimile on **facsimile number (08) 8216 5099**. Your response should not be sent to the Company Announcements Office. Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible, and in any event, not later than **5pm EDST on 6 March 2009**.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market if it considers it necessary for an informed market. Accordingly, it would be appreciated if you would prepare your response in a format suitable for release to the market and separately address each of the questions asked.

If you have any concerns about release of your response, or any queries in relation to this matter, please contact me immediately.

Yours sincerely,



**Justin Nelson**  
**Manager, Issuers (Adelaide)**