

**2009**

# Annual Report



## 2009 Highlights

### A Better Business Model

Ellex concluded the 2009 financial year in a stable and sustainable condition, and is well positioned to grow in the anticipated market recovery. Moving forward, we will work hard to achieve a distinct balance between initiatives that reduce costs and initiatives that position us for growth, with a goal of fostering a more sustainable business model over the long term. We will continue to focus our efforts on delivering ever-increasing value to our shareholders, and are committed to moving forward on the path to increasing profitability.



## To Our Shareholders

I am pleased to report that Ellex concluded the 2009 financial year in a stable condition, well positioned to grow in the anticipated market recovery.

Our financial performance this year was influenced significantly by the global financial crisis. In contrast with the last five years, where we enjoyed good economic certainty and a period of stable market growth, this financial year saw a material downturn in corporate and consumer confidence. As with most companies, the result for Ellex was a marked downturn in expected financial performance. In response, Ellex introduced a number of initiatives designed to make our business more flexible and responsive to changing market conditions.

Despite the difficult economic conditions, Ellex experienced continuing demand for its products in the 2009 financial year. In all, revenue increased by 16% aided by favourable exchange rates.

From a regional perspective, the Australian business performed well, achieving a revenue growth rate of 7%. This was aided in part by the Investment Allowance stimulus package offered by the Australian Government. The establishment of a new Ellex subsidiary in Germany further bolstered our sales performance, with this business exceeding the original revenue projections despite the recessionary market. As it moves into its second year of operations, we anticipate that Ellex Germany will perform in accordance with expectations and provide a platform for future growth. Demand elsewhere in Europe and in Japan remained steady. Aided by favourable exchange rates, Japanese revenue grew 40%, while revenue in the United States was below expectations due to the economic environment.

Pre-tax profit prior to one-off items was \$3.1 million, an increase of 30% over the previous financial year. This was a solid result, particularly in the context of global economic conditions, and demonstrates the underlying strength of Ellex. Unfortunately, due to one-off non-cash accounting charges incurred during the period, a Net Loss After Tax of \$22.6 million was incurred. These one-off accounting charges totalled \$26.3 million, and consisted of a write-down in goodwill of \$22.4 million, which was taken following receipt of independent professional advice in respect of the balance sheet carrying value of this intangible asset. The other one-off item related to foreign exchange losses incurred through the impact of a weakening Australian dollar on foreign currency hedging positions held by the Company, which had been set for an anticipated strengthening of the Australia dollar. While these one-off accounting charges and the resulting accounting loss were unfortunate, we believe that they will not recur and Ellex is budgeted to return to profitability in the 2010 financial year.

In December 2008, with worsening global economic conditions, the Board of Directors concluded that it was in the best interests of shareholders to raise capital in order to strengthen the Company's balance sheet. A Rights Issue was successful in raising \$1.6 million in equity capital and helped to better position the Company moving forward.

By taking a more measured approach to business growth, the Company maintained solid underlying profitability. This included a concerted effort to reduce debt, reduce inventory and manage expenses across all business functions, all of which have had a positive influence on the Company's balance sheet.

In swift response to the shift in market dynamics, Ellex implemented a series of internal changes principally designed to reduce our overhead structure and, in doing so, ensure the Company's long-term sustainability. This led to the retrenchment of around 20% of our employees and the restructuring of our U.S. operations to reduce overheads and refocus sales efforts to our Minneapolis-based headquarters. In addition, a number of initiatives were undertaken in order to drive efficiencies within working capital management, leading to considerable improvements in raw material and work-in-progress holdings.

In October 2008, Simon Luscombe was appointed CEO. Mr. Luscombe has an outstanding track-record in sales and marketing within the ophthalmic industry and has demonstrated an excellent combination of sales drive with a strong orientation toward enhancing the bottom line. To support Simon in his role, Melanie Young was appointed CFO. Ms. Young has been with the Company for four years and had served as Group Accountant and Financial Controller.

During the course of the year we strengthened the Board of Directors through the appointment of two new directors, Giuseppe Canala and Malcolm Plunkett. Both have considerable experience in the ophthalmic industry. Mr. Plunkett, who is also a Director of Ellex advanced research subsidiary Ellex R&D Pty. Ltd., heads up the Ellex 2RT™ Research Program.

Successful companies grow through innovation, and Ellex continued to invest in its product development pipeline during the 2009 financial year. The Ellex 2RT™ Research Program continues to make solid progress, with several clinical trials underway in Australia and the United Kingdom. We are hopeful that they will further validate the efficacy of Ellex 2RT™ for a number of clinical indications, including age-related macular degeneration (AMD). In late 2008, six-month pilot study results for Ellex 2RT™ were presented by Professor John Marshall, PhD, FRCPATH, FRCOphth (Hons), of St. Thomas' Hospital, London. The early results indicate that Ellex 2RT™ is clinically safe and effective in the treatment of macular edema in diabetic retinopathy patients. The Company continues to view Ellex 2RT™ as a significant opportunity for future growth.

Moving forward, we will work hard to achieve a distinct balance between initiatives that reduce costs and initiatives that position us for growth, with a goal of fostering a more sustainable business model over the long term. We will continue to focus our efforts on delivering ever-increasing value to our shareholders, and are committed to continuing to move forward on the path to profitability.



Victor Previn  
Chairman

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# Corporate Governance Statement

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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 group 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 and a Remuneration Committee. Given the size of the organisation, the role of Nomination Committee is undertaken by the Board itself. There are written mandates and operating procedures, which are reviewed on a regular basis. The effectiveness of the audit and remuneration committees is also monitored. The Board has also established a framework for the management of the consolidated group including a system of internal control, a business risks management process and the establishment of appropriate ethical standards.

The full Board currently holds twelve 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.



# Corporate Governance Statement

## 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 14 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) 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 group are set out in Note 33 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 group has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated group concerning performance of directors. Directors also have the opportunity to visit consolidated group facilities and meet with management to gain a better understanding of business operations.

## 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.

The policy is reviewed periodically and disclosed in the Annual Report each year.

# Corporate Governance Statement

## 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 group's expense. A copy of any advice received by the director is made available to all other members of the Board.

## Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer, senior executives and directors themselves. The Committee evaluates the performance of the Chief Executive Officer and monitors management succession planning. It is also responsible for share option schemes, incentive performance packages, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the Remuneration Committee during the year were:

Mr V Previn – Executive Director

Mr A Sundich – Non-Executive Director (Chairman of Remuneration Committee)

Given the size and structure of the Company's Board, the directors have formed the view that it is appropriate for the Remuneration Committee to comprise only two members, that an executive director be a member of the committee and that a majority of the members not be independent directors. A formal charter for the Remuneration Committee has been established during the year.

The Committee meets as required and met once during the year. The Chief Executive Officer is invited to meetings as required but does not attend meetings involving matters pertaining to him.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives, recognising the Company's size, industry and location. The Committee periodically obtains independent advice on the appropriateness of senior executive remuneration packages, given trends in comparative companies both locally and internationally.

Further details of directors' remuneration, superannuation and retirement payments are set out in the directors' report.

## 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 group.

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)

Given the size and structure of the Company's Board, the directors have formed the view that it is appropriate for the Audit Committee to comprise only two members, that an executive director be a member of the committee and that a majority of the members not be independent directors.

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 three times during the year.

The external auditor met with the Audit Committee and the Board of Directors three times 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 reviewed periodically and a summary is disclosed in the Annual Report each year and is available to members on request.

# Corporate Governance Statement

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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.

# Corporate Governance Statement

## 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 as conditions reasonably required
- 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 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 consolidated group 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 group strives to ensure that its products are of the highest standard. In pursuance of this, the consolidated group has achieved accreditation to AS/NZS ISO 13485-2003 in each of its business segments.

## Business Risk Management

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 group'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 35 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.

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively in all material respects.

## Financial reporting

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies of the Board.

Quarterly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

# Corporate Governance Statement

## 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 group. 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.

## Code of conduct

The consolidated group has advised each director, manager and employee that they must comply with the Corporate Governance Policy, the Management Authorities & Delegations Policy and the Code of Conduct, as detailed in the Employee Handbook, which outline the ethical standards required. The policies cover the following:

- Aligning the behaviour of the Board and management by maintaining appropriate core Company values and objectives
- Fulfilling responsibilities to shareholders by delivering shareholder value
- Usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure
- Fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced
- Employment practices such as occupational health and safety, employment opportunity, the community activities, sponsorships and donations
- Responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution
- Compliance with legislation including policies on legal compliance in countries where the legal systems and protocols are significantly lower than Australia's
- Conflicts of interest
- Corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain
- Confidentiality of corporate information
- Fair dealing
- Protection and proper use of the Company's assets
- Compliance with laws
- Reporting of unethical behaviour.

These policies are reviewed periodically and a summary is disclosed in the Annual Report each year.

## Shareholder Communications

The Board informs shareholders of all major developments affecting the consolidated group'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 who request a copy and it includes relevant information about the operations of the consolidated group during the year, changes in the state of affairs and details of future developments. The full annual report is also available on the Company's website
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated group 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. The half-yearly report is also available on the Company's website
- Proposed major changes in the consolidated group 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, in accordance with continuous disclosure obligations.

All documents that are released publicly are made available on the consolidated group's internet web site at [www.ellex.com](http://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 group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

# Directors' Report

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2009. 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

**Victor Previn (Chairman)** is 51 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. He is also a member of the Audit Committee and the Remuneration Committee.

**Alex Sundich** is 45 years old and was appointed a non-executive director on 22 July 2005. Alex is currently an Executive Director of Harvest Capital Partners, an independent investment firm he co-founded in 2008. From 2002 to 2008, Alex was a senior executive in the funds management industry. Prior to this, he was an investment banker with Goldman Sachs and CSFB, involved in Mergers & Acquisitions and capital raisings. Alex is currently a non-executive director of Eastern Star Gas Limited. He is also Chairman of the Audit Committee and the Remuneration Committee.

**Professor John Marshall** is 65 years old and was appointed a non-executive director on 11 October 2007. Professor Marshall is currently Frost Professor of Ophthalmology of Guy's and St Thomas' Hospitals, University of London. Professor Marshall is also the Chairman of Ellex's Medical Advisory Board, and has over 40 years of ophthalmology experience. Professor Marshall also held the original patents on excimer laser refractive surgery.

**Malcolm Plunkett** is 55 years old and was appointed a director on 17 October 2008. Malcolm has spent nearly four decades involved in the design and manufacture of industrial and scientific electronic devices for medical industries. Appointed Vice President of Advanced Research in late June 2005, Malcolm plays a significant role in directing the Company's growth into new markets. Recently, Malcolm has led the Ellex 2RT™ (Retina Regeneration Therapy) program, directing clinical trials and ongoing laboratory experimentation.

**Giuseppe Canala** is 62 years old and was appointed a non-executive director on 17 October 2008 and Company Secretary on 27 October 2008. Giuseppe is an experienced company director with a range of laser related companies, with a professional engineering and economics background. As an original co-founder of Ellex, he has served the Company in a broad range of management roles, including Director of Engineering, Operations and Managing Director. He also served as Chairman from 1990 to 2001.

**Kevin McGuinness** is 42 years old and was appointed Chief Executive Officer on 26 June 2008. Kevin commenced as Chief Financial Officer/Company Secretary in October 2002 until April 2006, when he was appointed Chief Operating Officer in addition to his existing roles until June 2008. Kevin was also appointed as a director on 11 October 2007. Kevin ceased employment as Chief Executive Officer and resigned as a director on 22 October 2008.

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

- Kevin McGuinness – ceased employment and resigned as a director on 22 October 2008.

## Company Secretary

- **Giuseppe Canala** appointed Company Secretary 27 October 2008.
- **Anthony Mitchell** ceased employment and resigned as Company Secretary 27 October 2008.

## 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.

There were no significant changes in the nature of the activities of the Group during the year.

## Review of operations

The year ended 30 June 2009 saw Ellex achieve 16% growth in revenue, with growth in Australian sales of 7%, a new sales office in Germany and the strong Australian dollar. Sales growth of 40% in Japan was assisted by the favourable exchange rate. Growth in local currency in all other regions was impacted by the global financial crisis.

While the results in the USA in FY08 were below expectations, the directors continue to view this market as a significant opportunity for the consolidated group. During FY09 the transition to a hybrid sales model utilising a network of independent representatives augmented by direct sales employees was completed.

Despite solid revenue growth, the pre-tax loss for the FY09 year of \$23.2 million compared with \$1.9 million in FY08. Excluding one-off costs of \$26.3 million (FY08: \$0.5 million), pre-tax profit for the year was \$3.1 million (FY08: \$2.4 million).

The consolidated loss for the year was \$22.6 million. This compares to a profit of \$4.8 million for FY08. Excluding one-off items, net profit after tax was \$3.7 million compared to \$1.6 million in FY08 year. The result for the year ended 30 June 2008 included a previously unrecognised tax benefit of \$3.7 million.

The one-off costs include impairment of goodwill \$22.4 million, impairment of other intangibles \$0.7 million, redundancy costs \$0.5 million, realised mark-to-market loss \$2.0 million and unrealised mark-to-market loss remaining \$0.7 million. As at 31 December 2008, an unrealised mark-to-market loss of \$3.6 million was recognised on foreign currency exchange contracts. Since then, a loss of \$2.0 million was recognised, a loss of \$0.7 million remains unrealised and the remaining \$0.9 million has reduced the original \$3.6 million loss due to a recovery in the foreign exchange rates. Redundancy costs of \$0.5 million were incurred primarily due to the operating cost restructure of the business in line with global economic conditions.

The Company established a subsidiary in Germany in June 2008 to take advantage of the opportunities available in that market. The business exceeded the original budget in its first year despite the recessionary environment. This is expected to provide a platform for future growth.

The Company continued to invest in new product development in FY09, with approximately 7% of revenue being directed to these activities. This was partially offset by revenue from R&D grants, resulting in net R&D expenditure of approximately 4% of revenue.

The focus of R&D activities in FY09 was the ongoing development and clinical trials (in both the UK and Australia) of the Ellex 2RT (Retinal Regeneration Therapy) technology and further improvements to the Eye Cubed ultrasound product and accessories.

The Company's key objective for FY10 is to improve profitability through a more measured approach to business growth by refining the cost structure of the business. A product cost reduction program is in place to ensure products remain competitive and margins are protected and an increased focus has been placed on working capital management.

## Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated group other than that referred to in this report, 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 group, the results of those operations, or the state of affairs of the consolidated group 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 ophthalmic medical equipment for use in ophthalmic procedures worldwide.

Further disclosure of information regarding likely developments in the operations of the consolidated group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated group. Accordingly, this information has not been disclosed in this report.

## Dividends

No dividend has been declared with respect to the year ended 30 June 2009 (30 June 2008: Nil).

# Directors' Report

## Share options

### Share options granted to directors and executives

During and since the end of the financial year there have been no share options granted to directors and executives of the Company and the consolidated group as part of their remuneration.

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

Details of unissued shares or interests under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Ellex Medical Lasers Limited	66,666	Ordinary	\$0.30	30/09/2009
Ellex Medical Lasers Limited	66,667	Ordinary	\$0.40	30/09/2010
Ellex Medical Lasers Limited	66,666	Ordinary	\$0.70	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 the Company or any other body corporate or registered scheme.

There were no shares or interests issued during the financial year to directors, executives and staff as a result of exercise of an option.

## 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.

The Company has not otherwise, during or since the end of 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, sixteen Board meetings, three Audit Committee meetings and one Remuneration Committee meeting were held.

Directors	Board of Directors		Audit Committee		Remuneration Committee	
	Held*	Attended	Held*	Attended	Held*	Attended
V Previn	16	16	3	3	1	1
A Sundich	16	15	3	3	1	1
K McGuinness	5	5	N/A	N/A	N/A	N/A
J Marshall	16	16	N/A	N/A	N/A	N/A
G Canala	11	11	N/A	N/A	N/A	N/A
M Plunkett	11	10	N/A	N/A	N/A	N/A

\*The number of meetings held during the period the relevant director held office.



## 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	-	-	9,316,031	-
A Sundich	1,000,000	-	5,300,000	-
J Marshall	50,000	-	-	-
M Plunkett	50,000	133,333	-	-
G Canala	15,000	-	4,046,788	-

## Remuneration report

This remuneration report, which forms part of the director's report, sets out information about the remuneration of the directors and executives for the financial year ended 30 June 2009. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and executive details
- remuneration policy
- relationship between the remuneration policy and company performance
- key terms of employment contracts
- remuneration of directors and executives

### Director and executive details

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

- Victor Previn – Chairman
- Alex Sundich – Non-executive Director
- Kevin McGuinness – Executive Director from 11 October 2007 (ceased 22 October 2008) and Chief Executive Officer from 26 June 2008 (ceased 22 October 2008)
- John Marshall – Non-executive Director
- Giuseppe Canala – Non-executive Director (commenced 17 October 2008) / Company Secretary (commenced 27 October 2008)
- Malcolm Plunkett – Executive Director (commenced 17 October 2008)

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

- Simon Luscombe – Chief Executive Officer (appointed 22 October 2008)
- Melanie Young – Chief Financial Officer (appointed 28 October 2008)
- Bill Swaim – President, Ellex (USA) Inc
- Yukitaka Isoda – President, Ellex (Japan) Corporation
- Anthony Mitchell – Chief Financial Officer/Company Secretary (ceased 27 October 2008)
- Richard Stone – VP Operations/Engineering
- John Edwards – General Manager, Ellex Australia (appointed 2 March 2009)
- Anthony Stevens – VP Engineering (ceased 7 January 2009)
- Christine Warren – VP Sales Greater Europe
- Don Watton – VP Quality
- Morag Greenwood – VP Human Resources

# Directors' Report

## Remuneration policy for directors and executives

The Board reviews the remuneration packages of all directors and executives on an annual basis. Remuneration packages 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.

## Relationship between the remuneration policy and company performance

### Non-executive directors

Total remuneration for all non-executive directors, last voted on by shareholders at the 2001 AGM, is not to exceed \$200,000 (exclusive of superannuation) per annum and is set based upon advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently \$20,000 per annum.

The Chairman receives the base fee plus \$10,000 per annum, and an additional salary in his capacity as an executive. Director's fees cover all main Board functions but exclude membership of the Audit Committee. A fee of \$5,000 per annum is payable for membership of the Audit Committee. The Company Secretary receives an additional salary in addition to his capacity as a director of \$25,000. In addition, the Company pays compulsory superannuation. The Company does not have a formal Board Retirement scheme. Non-executive directors do not receive any performance related remuneration.

### Executive directors and executive management

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated group's diverse operations, recognising the Company's size, industry and location.

Remuneration and other terms of employment for executives are reviewed annually by the Board having regard to the individual's performance against goals and business plans, relevant comparative data and employment market conditions and independent expert advice.

Remuneration packages of executives incorporate a base salary (which can be taken as cash or fringe benefits), superannuation and performance related short and long term incentives. The fixed component of remuneration is set to provide a base that is both appropriate to the position and is competitive in the market.

Short term incentive payments are discretionary and take into account the extent to which specific operating targets set at the start of the financial year have been achieved. The operational targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance, the primary measure being the performance against profit targets. Short term incentive payments are normally made by way of a cash bonus.

Long term incentives are provided as options over ordinary shares in the Company under the rules of the Director and Employee Share Option Plan, as approved by shareholders at an extraordinary meeting on 9 July 2001. The ability to exercise options may be conditional upon the achievement of certain performance hurdles which are designed to drive the financial performance of the consolidated group and deliver shareholder value in the long term.

The Board has adopted the above performance-linked remuneration structure in order to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The Board considers that the performance-linked remuneration structure is working effectively.

There is no policy or monitoring of Key Management Personnel's (KMP) limiting their risk in relation to issued options.

The remuneration of KMP is based on an annual assessment of the individual's performance with reference to external data pertaining to executive remuneration. There is no link between the Company's performance and the setting of remuneration except as discussed on page 20 in relation to profit sharing and options for certain executives.

## Key terms of employment contracts

Remuneration and other terms of employment of the Chief Executive Officer and senior executives are formalised in service agreements. Major provisions of the agreements are set out below.

### Simon Luscombe – Chief Executive Officer from 22 October 2008

- Term of agreement – three years
- Base salary of \$216,531 inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of 90 days notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice
- A short term incentive linked to achievement of profit targets on an annual basis to a maximum of 1% of Net Profit Before Tax over \$4 million for the year to 30 June 2009. To be reviewed annually thereafter.

### Kevin McGuinness – Chief Executive Officer to 22 October 2008

- Term of agreement – no fixed term
- Base salary of \$275,000 inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of three months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice
- A short term incentive linked to achievement of profit targets on an annual basis to a maximum of \$100,000 for the year to 30 June 2009. To be reviewed annually thereafter
- Long term incentive in the form of options over ordinary shares in the Company in line with the Ellex Incentive and Option Program.

### All Other Executives (as listed on page 17)

- Term of agreement – no fixed term
- Base salary inclusive of superannuation to be reviewed annually
- Employer or employee may terminate employment on giving of up to three months notice (depending on individual contracts) and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice
- A short term incentive linked to achievement of profit targets on an annual or quarterly basis

Profit targets are defined as either Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the regional business unit managers or Earnings Before Tax (EBT) for corporate executives. These have been chosen as the key measures by the Board as the most reflective performance indicators for the organisation at this point in its life cycle.

# Directors' Report

The tables below set out summary information about the consolidated group's earnings and movements in shareholder wealth for the five years to June 2009.

	30 June 2009 \$'000	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2006 \$'000	30 June 2005 \$'000
Revenue (i)	58,310	50,367	44,421	34,593	26,958
EBITDA	(20,735)	3,912	4,613	4,996	1,857
Net (loss)/profit before tax	(23,229)	1,858	2,824	3,839	812
Net (loss)/profit after tax	(22,615)	4,834	4,368	3,693	629

(i) Revenue includes revenue from sale of goods of ongoing operations and interest received as per note 2 in the accounts in each financial year.

	30 June 2009	30 June 2008	30 June 2007	30 June 2006	30 June 2005
Share price at start of year	0.295	0.830	0.625	0.240	0.295
Share price at end of year	0.130	0.295	0.830	0.625	0.240
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	(29.6) cps	6.93 cps	6.93 cps	6.02 cps	1.03 cps
Diluted earnings per share	(29.6) cps	6.84 cps	6.75 cps	5.75 cps	1.03 cps

## Remuneration of directors and executives

### Elements of director and executive compensation

Compensation packages contain the following key elements:

- Salary/fees
- Benefits – including the provision of motor vehicle, superannuation and health benefits
- Incentive schemes – including performance related bonuses and share options under the Directors' and Employee Share Option plan as disclosed in Note 6 to the financial statements.

Other than the amounts disclosed in the column for bonuses and equity-settled options, all other amounts are fixed as part of the executives remuneration.

2009	Short term employee benefits			Post employment benefits		Share based payments - Options	Other long term benefits	Total
	Salary & Fees	Bonus	Non-monetary benefits	Pension & superannuation	Other			
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>								
V Previn	75,000	-	-	6,750	-	-	-	81,750
J Marshall	20,000	-	-	-	-	-	-	20,000
K McGuinness (i)	169,707	-	14,278	7,128	-	(12,400)	-	178,713
G Canala	48,415	-	-	1,706	-	-	-	50,121
M Plunkett	121,190	-	-	11,069	3,030	-	-	135,289
A Sundich	25,000	-	-	2,250	-	-	-	27,250
P Falzon	-	-	-	-	-	(53,680)	-	(53,680)
<b>Executives</b>								
Y Isoda (ii)	269,121	172,341	16,777	-	-	-	-	458,239
B Swaim	241,603	-	34,178	24,753	13,533	-	-	314,067
C Warren (ii)	296,448	43,351	-	-	-	-	-	339,799
A Stevens (i) (iii)	81,871	11,353	9,165	7,302	-	-	-	109,691
S Luscombe (ii)	182,427	23,000	-	16,972	4,561	-	-	226,960
M Greenwood (vii)	53,320	-	-	4,799	1,333	-	-	59,452
R Stone (iv)	148,007	17,100	12,005	15,484	3,700	-	-	196,296
M Young	95,193	-	-	8,553	2,380	-	-	106,126
J Edwards	43,904	-	-	3,951	1,098	-	-	48,953
D Watton	129,123	-	-	11,621	3,228	-	-	143,972
A Mitchell (i)	100,588	-	-	4,387	-	-	-	104,975
<b>Total</b>	<b>2,100,917</b>	<b>267,145</b>	<b>86,403</b>	<b>126,725</b>	<b>32,863</b>	<b>(66,080)</b>	<b>-</b>	<b>2,547,973</b>

# Directors' Report

2008	Short term employee benefits			Post employment benefits		Share based payments		Other long term benefits	Total
	Cash salary & fees	Profit sharing & bonuses (vi)	Non-monetary benefits	Pension & super-annuation	Other	Equity settled – Options	Cash settled		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>									
V Previn	141,000	-	-	12,690	-	-	-	-	153,690
J Marshall	15,000	-	-	-	-	-	-	-	15,000
P Falzon (v)	380,995	13,944	11,257	6,693	2,139	6,400	-	-	421,428
K McGuinness	168,460	-	48,633	15,890	4,212	3,200	-	-	240,395
A Sundich	25,000	-	-	2,250	-	-	-	-	27,250
<b>Executives</b>									
Y Isoda (ii)	202,666	149,499	12,544	-	-	-	-	-	364,709
B Swaim	191,504	-	22,756	25,565	16,133	-	-	-	255,958
C Warren (ii)	227,361	18,354	-	-	-	-	-	-	245,715
A Stevens (iii)	143,063	28,922	13,024	15,447	3,577	-	-	-	204,033
S Luscombe (ii)	132,992	54,139	-	16,842	-	-	-	-	203,973
R Stone	103,744	-	6,630	9,437	2,594	-	-	-	122,405
A Mitchell	53,987	-	-	4,362	1,350	-	-	-	59,699
H Pummer	44,064	-	-	-	-	-	-	-	44,064
<b>Total</b>	<b>1,829,836</b>	<b>264,858</b>	<b>114,844</b>	<b>109,176</b>	<b>30,005</b>	<b>9,600</b>	<b>-</b>	<b>-</b>	<b>2,358,319</b>

## Bonuses granted as compensation and additional comments – 2008 and 2009

- (i) Included in the salary and fees paid during the year were termination benefits to Mr K McGuinness of \$107,640, Mr A Stevens of \$15,348 and Mr A Mitchell of \$51,838.
- (ii) 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 2009 and 2008 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:
  - Mr Y Isoda received bonuses of \$29,178, \$31,976, \$53,852 and \$57,335 in October 2008, January, April and June 2009 (2008: \$52,886, \$20,267, \$29,792 and \$46,554 in August and December 2007, February and June 2008). In 2009, 100% of the potential bonus has vested.
  - Ms C Warren received bonuses of \$16,466, \$15,443 and \$11,442 in August and December 2008 and February 2009 respectively (2008: \$18,354 was paid in April 2008). In 2009, 39% of the potential bonus has vested, with 61% being forfeited.
  - Mr S Luscombe was paid bonuses of \$15,000 and \$8,000 in August 2008 and February 2009 respectively (2008: \$31,559 and \$22,580 in August 2007 and March 2008 respectively) in relation to his position of General Manager, Ellex Australia. In 2009, 77% of the potential bonus has vested, with 23% being forfeited.
- (iii) In line with performance based elements of the contracts with key management personnel, Mr A Stevens was paid a bonus of \$11,353 in September 2008 as part of his salary based on specific criteria for departmental performance during the year (2008: \$10,000 and \$18,922 in July 2007 and January 2008 respectively). In 2009, 100% of the potential bonus has vested.
- (iv) In line with performance based elements of the contracts with key management personnel, Mr R Stone was paid bonuses of \$5,700 and \$11,400 in November 2008 and January 2009 respectively as part of his salary based on specific criteria for departmental performance during the year (2008: Nil). In 2009, 100% of the potential bonus has vested.

- (v) Mr P Falzon had an unpaid termination benefit of \$157,895 at 30 June 2008, which was paid during the year ended 30 June 2009 and therefore have not been included in 2009. Mr Falzon was paid a cash bonus of \$13,944 in August 2007 for the performance during the year ended 30 June 2007 in line with performance based key performance indicators of net profit before tax.
- (vi) The amounts included in the table above identified as "profit sharing and bonuses" represents the amount that vested in the financial year based on the satisfaction of specific performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2008/2009 financial year. Where amounts have been forfeited, it was due to the performance or service criteria not being met in the current financial year.
- (vii) Mrs M Greenwood is a permanent part-time employee.

The consolidated group has continued to invest in its sales and distribution network, whilst continuing to develop its research and development in relation to ophthalmic laser and ultrasound equipment and the revenue generating opportunities arising from this. As a result, there has been continued reinvestment in the business to grow these opportunities and, accordingly, there is not a demonstrable link between performance and shareholder wealth in the short-term.

## Value of options issued to directors and executives

No options were granted or exercised during the year ended 30 June 2009 in relation to directors or executives. The following table discloses the value of options lapsed during the 2009 year:

2009	Value of options granted at grant date \$	Value of options exercised at exercise date \$	Value of options lapsed at the date of lapse (i) \$
K McGuinness	12,400	Nil	12,400
P Falzon	53,680	Nil	53,680

- (i) The value of options lapsed during the period due to staff leaving is determined assuming the vesting condition had been met.

## 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 Australian 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 are 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

The vesting of options is subject to final ratification by the Board.

# Directors' Report

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## 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 7 to the financial statements.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 25 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 September 2009



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

22 September 2009

Dear Board Members

**Ellex Medical Lasers Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Ellex Medical Lasers Limited.

As lead audit partner for the audit of the financial statements of Ellex Medical Lasers Limited for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Stephen Harvey  
Partner  
Chartered Accountants

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

### Report on the Financial Report

We have audited the accompanying financial report of Ellex Medical Lasers Limited, which comprises the balance sheet as at 30 June 2009, 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 27 to 75.

#### 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### 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 as to 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:

- (a) the financial report of Ellex Medical Lasers Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 24 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Auditor's Opinion

In our opinion the Remuneration Report of Ellex Medical Lasers Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Partner  
Chartered Accountants  
Adelaide, 22 September 2009

## Directors' Declaration

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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 Company and the consolidated group; and
- c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 31 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Victor Previn

Chairman

Adelaide, 22 September 2009

# Income Statement

for the financial year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	2	58,310	50,367	-	-
Other income	4	1,159	1,437	-	-
Changes in inventories of finished goods and work in progress		(1,086)	3,673	-	-
Raw materials and consumables used		(28,106)	(29,089)	-	-
Employee benefits expense	4	(16,542)	(16,046)	-	-
Depreciation and amortisation expense	4	(1,857)	(1,405)	-	-
Legal fees	4	(179)	(112)	-	-
Advertising and marketing		(1,806)	(1,848)	-	-
Finance costs	3	(637)	(649)	-	-
Product development		(319)	(253)	-	-
Realised foreign exchange loss	4	(2,975)	-	-	-
Mark-To-Market unrealised foreign exchange (loss)/gain		(664)	275	-	-
Impairment of capitalised development expenditure	4	(672)	-	-	-
Impairment of goodwill	4	(22,367)	-	-	-
Impairment of investment	4	-	-	(12,000)	-
Other expenses		(5,488)	(4,492)	(6)	-
(Loss)/Profit before tax	4	(23,229)	1,858	(12,006)	-
Tax income	5	614	2,976	-	-
(Loss)/Profit for the year		(22,615)	4,834	(12,006)	-

## Attributable to:

Equity holders of the parent		(22,616)	4,745	(12,006)	-
Minority Interest		1	89	-	-
		(22,615)	4,834	(12,006)	-

## Earnings per share:

From continuing operations:					
Basic (cents per share)	27	(29.6)	6.93		
Diluted (cents per share)	27	(29.6)	6.84		

Notes to the financial statements are included on pages 32 to 75.

# Balance Sheet

as at 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current assets</b>					
Cash assets	34	1,632	830	5	2
Trade and other receivables	8	14,258	13,038	-	-
Other financial assets	9	-	275	-	-
Inventories	10	15,883	17,745	-	-
Current tax assets	5	483	246	124	114
Other	11	899	1,008	-	-
<b>Total current assets</b>		<b>33,155</b>	<b>33,142</b>	<b>129</b>	<b>116</b>
<b>Non-current assets</b>					
Trade and other receivables	8	242	168	-	-
Other financial assets	12	-	-	22,609	34,294
Property, plant and equipment	13	3,550	3,761	-	-
Deferred tax assets	5	7,208	6,238	1,207	-
Goodwill	14	-	21,680	-	-
Other intangible assets	15	609	439	-	-
Capitalised development expenditure	16	6,141	6,513	-	-
<b>Total non-current assets</b>		<b>17,750</b>	<b>38,799</b>	<b>23,816</b>	<b>34,294</b>
<b>Total assets</b>		<b>50,905</b>	<b>71,941</b>	<b>23,945</b>	<b>34,410</b>
<b>Current liabilities</b>					
Trade and other payables	18	6,737	8,085	-	-
Borrowings	19	10,486	9,175	-	-
Other financial liabilities	20	389	-	-	-
Current tax payables	5	-	227	-	-
Provisions	21	1,778	1,736	-	-
Other	22	385	439	-	-
<b>Total current liabilities</b>		<b>19,775</b>	<b>19,662</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>					
Borrowings	19	-	1,380	-	-
Provisions	21	293	218	-	-
Other liabilities	23	786	2,740	-	-
<b>Total non-current liabilities</b>		<b>1,079</b>	<b>4,338</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>20,854</b>	<b>24,000</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>		<b>30,051</b>	<b>47,941</b>	<b>23,945</b>	<b>34,410</b>
<b>Equity</b>					
Issued capital	24	35,176	33,635	35,176	33,635
Reserves	25	863	(2,321)	-	-
(Accumulated losses)/Retained earnings	26	(6,199)	16,417	(11,231)	775
		<b>29,840</b>	<b>47,731</b>	<b>23,945</b>	<b>34,410</b>
Parent entity interest		29,840	47,731	23,945	34,410
Minority interest		211	210	-	-
<b>Total equity</b>		<b>30,051</b>	<b>47,941</b>	<b>23,945</b>	<b>34,410</b>

Notes to the financial statements are included on pages 32 to 75.

# Statement of Recognised Income & Expense

for the financial year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Exchange differences arising on translation of foreign operations:</b>					
Exchange difference taken to equity	25	3,281	(389)	-	-
(Lapse)/Issue of Share Options to employees	25	(97)	25	-	-
Net income/(expense) recognised directly in equity		3,184	(364)	-	-
(Loss)/Profit for the period		(22,615)	4,834	(12,006)	-
Total recognised income and expense for the period		(19,431)	4,470	(12,006)	-
<b>Attributable to:</b>					
Equity holders of the parent		(19,432)	4,381	(12,006)	-
Minority interest		1	89	-	-
		(19,431)	4,470	(12,006)	-

Notes to the financial statements are included on pages 32 to 75.

# Cash Flow Statement

for the financial year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		57,639	50,417	-	-
Grant income received		469	699	-	-
Payments to suppliers and employees		(53,103)	(51,524)	(6)	-
Interest and other costs of finance paid		(637)	(649)	-	-
Interest received		12	52	-	-
Income tax paid		(404)	(184)	-	-
<b>Net cash provided by/(used in) operating activities</b>	<b>34</b>	<b>3,976</b>	<b>(1,189)</b>	<b>(6)</b>	<b>-</b>
<b>Cash flows from investing activities</b>					
Payment for deposits		(74)	(15)	-	-
Payment for property, plant and equipment		(886)	(1,820)	-	-
Proceeds from sale of property, plant and equipment		34	12	-	-
Payment for intangible assets		(182)	(287)	-	-
Payment for earnouts to previous owners		(1,274)	(838)	-	-
Payments for capitalised development costs		(1,981)	(1,320)	-	-
<b>Net cash used in investing activities</b>		<b>(4,363)</b>	<b>(4,268)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		1,638	2,896	1,638	2,896
Payment for share issue costs		(97)	-	(97)	-
Proceeds from borrowings		4,995	5,098	-	-
Repayment of borrowings		(4,771)	(4,910)	(1,532)	(2,899)
<b>Net cash provided by/(used in) financing activities</b>		<b>1,765</b>	<b>3,084</b>	<b>9</b>	<b>(3)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,378</b>	<b>(2,373)</b>	<b>3</b>	<b>(3)</b>
Cash and cash equivalents at the beginning of the financial year		(22)	2,740	2	5
Effects of exchange rate changes on the balance of cash held in foreign currencies		245	(389)	-	-
<b>Cash and cash equivalents at the end of the financial year</b>	<b>34</b>	<b>1,601</b>	<b>(22)</b>	<b>5</b>	<b>2</b>

Notes to the financial statements are included on pages 32 to 75.

# Notes to the Financial Statements

## for the financial year ended 30 June 2009

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# Notes to the Financial Statements

## 1. Significant 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 Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial statements and notes of the Company and consolidated group comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the directors on 22 September 2009.

### 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. All amounts are presented in Australian Dollars unless otherwise noted.

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.

### Adoption of New & Revised Accounting Standards

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.

### Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue, but not yet effective. Initial application of the following standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the consolidated group and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'.	1 January 2009	30 June 2010
AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010
AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	1 January 2009 (and that ends on or after 30 April 2009)	30 June 2010

# Notes to the Financial Statements

## 1. Significant accounting policies cont'd

Initial application of the following Standards has not yet been fully assessed, however initial indications are that they will not have any material impact on the financial report of the consolidated group and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	Business combinations occurring after the beginning of annual reporting periods 1 July 2009	30 June 2010
AASB 2008-1 'Amendments to Australian Accounting Standard - Share-Based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
AASB 2008-5 'Amendments to Australian Accounting Standard arising from the Annual Improvements Project'	1 January 2009	30 June 2010
AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2009	30 June 2010
AASB 2008-7 'Amendments to Australian Accounting Standards – cost of an investment in a subsidiary, jointly controlled entity or associate'	1 January 2009	30 June 2010
AASB 123 'Borrowing Costs' (revised), AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123"	1 January 2009	30 June 2010
AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 July 2009	30 June 2010
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
AASB 2009-6 "Amendments to Australian Accounting Standards"	1 January 2009	30 June 2010
AASB 2009-7 "Amendments to Australian Accounting Standards"	1 July 2009	30 June 2010
AASB 2009-8 "Amendments to Australian Accounting Standards"	1 January 2010	30 June 2011

### Critical accounting judgements and key sources of estimation uncertainty

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.

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.

# Notes to the Financial Statements

## 1. Significant accounting policies cont'd

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:

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was Nil (2008: \$21,680 thousand). Goodwill was revised based on a new estimate of the final earn-outs payable to the previous owners of the businesses acquired and then an impairment loss of \$22,367 thousand (2008: Nil) was recognised during the current financial year. Details of the impairment loss calculation are provided in note 14.

### Previously unrecognised deferred tax

In 2008, a deferred tax asset was recognised in the financial report (as per note 5) for the tax benefit of the uplift in Intellectual Property upon entering the Tax Consolidation regime in Australia from 1 July 2004. This was due to the Australian Taxation Office (ATO) review being resolved during the second half of 2008.

### Earn-outs of goodwill to previous owners of businesses acquired

Calculations of the earn-outs to the previous owners of the businesses acquired in 2007 have been made by management based on performance during the 2009 year, and the budgeted performance over the 3 years of the earn-out clauses in the acquisition contracts.

### Going concern

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities, ongoing support from its financier, Westpac Banking Corporation Limited (the Bank) and the realisation of assets and settlement of liabilities in the normal course of business.

In respect of the year ended 30 June 2009 the directors note that:

- The underlying operating performance, excluding impairment charges for goodwill and other intangibles and negative foreign exchange movements as set out in the Note 4, was a profit before tax of \$2.6 million (2008: \$1.8 million). The consolidated entity generated operating cash flows of \$4.0 million for the year;
- As at 30 June 2009 the consolidated entity had cash at bank of \$1.6 million, unused Bank facilities of \$4.4 million (and 66 million JPY) and its current assets of \$33.2 million exceeded current liabilities of \$19.8 million by \$13.4 million; and
- Further, the Company undertook a major restructure of its management team and board which has resulted in the Company successfully executing a rights issue for \$1.6 million in cash in January 2009 and implementing a successful cost cutting strategy which has resulted in the improvement in the underlying operating performance and profitability of the consolidated entity in the last six to nine months of the financial year ended 30 June 2009.

However, as a result of the effect on net profit after tax of the impairment of goodwill, other intangibles and the adverse movement in foreign exchange totalling \$25.8 million (Note 4) the Company breached its interest cover ratio and equity ratio (Note 35(a)) from December 2008. The Bank acknowledged the breach and agreed to extend the current facilities at 31 August 2009, as set out in Note 34, to 31 October 2009. The Bank confirmed that all facilities and related financial covenants would be reviewed as part of its annual facility review that is to be completed by 31 October 2009.

As at the date of this report the directors are in ongoing discussions with the Bank as to the appropriate level and terms of the facilities and they are confident that the consolidated entity and Company will continue to receive the support of the Bank.

The consolidated entity's business plans, supporting budgets and cash flow forecasts demonstrate the capacity to operate within the current facility limits and financial covenants with adequate flexibility to manage and grow its business in the current economic environment.

The directors believe that the consolidated entity and the Company will continue to receive the support of the Bank to provide sufficient external funding to supplement forecast cash flows from operations to enable the consolidated entity and Company to achieve their business plans as submitted to the Bank and therefore that the consolidated group and the Company are able to continue as going concerns and realise their assets and extinguish their liabilities in the ordinary course of business and at the amounts stated in the financial statements.

# Notes to the Financial Statements

## 1. Significant accounting policies cont'd

### Accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2009 and the comparative information presented in these financial statements for the year ended 30 June 2008.

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. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

#### (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' (2004) 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.

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 group 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 35 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### (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 group 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 the 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 except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements.

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.

## 1. Significant accounting policies cont'd

### (f) Financial assets cont'd

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

#### Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired principally for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the consolidated group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss and includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 35.

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### (g) Financial instruments issued by the Company

#### Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the consolidated group are recorded at the proceeds received, net of direct issue costs.

#### Other financial liabilities

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

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.

# Notes to the Financial Statements

## 1. Significant accounting policies cont'd

### (h) Foreign currency

The individual financial statements of each entity in the consolidated group are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Ellex Medical Lasers Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entities functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the consolidated group's foreign currency translation reserve. Such differences are recognised in profit or loss in the period in which the foreign operation is disposed.

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:

- 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
- 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 group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated group 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 group with no future related costs are recognised as income of the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

## 1. Significant accounting policies cont'd

### (l) Impairment of assets

At each reporting date, the consolidated group 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 group 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 tax

#### Current 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 balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated group 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 group 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 group 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.

# Notes to the Financial Statements

## 1. Significant accounting policies cont'd

### (m) Income tax cont'd

#### 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 5 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 (2-20 years) of the products the patent covers. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

#### Research and development costs

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

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

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

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 group 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 leased assets are amortised on a straight line basis over the estimated useful life of the asset.



# Notes to the Financial Statements

## 1. Significant accounting policies cont'd

### (p) Leased assets cont'd

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 group, 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 31 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the consolidated group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

### (r) Property, plant and equipment

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. 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

- Plant and equipment 2.5 – 20 years
- Equipment under finance lease 4 – 5 years

### (s) Provisions

Provisions are recognised when the consolidated group 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 group's liability.

### (t) Revenue recognition

#### Sale of goods

Revenue from the sale of goods is recognised when the consolidated group 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 group's estimate of shares that will eventually vest.

# Notes to the Financial Statements

## 2. Revenue

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Revenue from continuing operations consisted of the following items:</b>				
Revenue from the sale of goods	58,298	50,315	-	-
<b>Interest revenue:</b>				
Bank deposits	12	52	-	-
	58,310	50,367	-	-

## 3. Finance Costs

Interest on bank overdrafts and loans	602	632	-	-
Interest on obligations under finance leases	14	14	-	-
Other interest expense	21	3	-	-
Attributable to continuing operations	637	649	-	-

## 4. Profit/(losses) for year before income tax

### (a) Gains and losses

Profit/(losses) for the year has been arrived at after crediting/(charging) the following gains and losses from continuing operations:				
<b>Other income</b>				
Gain/(loss) on disposal of property, plant and equipment	(4)	(3)	-	-
Net foreign exchange gains	-	574	-	-
R & D Income	956	774	-	-
Other income	207	92	-	-
	1,159	1,437	-	-

## Notes to the Financial Statements

### 4. Profit/(losses) for year before income tax cont'd

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(b) Other expenses</b>				
Profit/(losses) 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	30,319	27,686	-	-
<b>Net bad and doubtful debts arising from:</b>				
Other entities	(210)	-	-	-
	(210)	-	-	-
Depreciation of property, plant and equipment	948	814	-	-
Amortisation of intangible assets	909	591	-	-
	1,857	1,405	-	-
Impairment write-off of capitalised development expenditure	672	-	-	-
Impairment of goodwill	22,367	-	-	-
Impairment of investment	-	-	12,000	-
Total research and development costs (excluding employee costs less capitalised costs)	782	898	-	-
<b>Operating lease rental expenses</b>				
Minimum lease payments	1,062	899	-	-
<b>Employee benefit expense</b>				
<b>Share based payments</b>				
Equity settled share based payments	-	25	-	-
Lapsed employee share options	(97)	-	-	-
<b>Post employment benefits</b>				
Defined contribution plans	766	777	-	-
Termination payments	532	158	-	-
Other employee benefits	15,341	15,086	-	-
	16,542	16,046	-	-
Legal fees	179	112	-	-
Net realised foreign exchange losses	2,975	-	-	-

# Notes to the Financial Statements

## 5. Income Taxes

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Income tax recognised in profit or loss</b>				
<b>Tax expense comprises:</b>				
Current tax (benefit)/expense	(854)	276	-	-
Deferred tax expense/(benefit)	240	(3,252)	-	-
<b>Total tax benefit</b>	<b>(614)</b>	<b>(2,976)</b>	<b>-</b>	<b>-</b>
<b>Attributable to:</b>				
Continuing operations	(614)	(2,976)	-	-
	(614)	(2,976)	-	-

The prima facie income tax (benefit)/expense on pre-tax accounting (loss)/profit from operations reconciles to the income tax (benefit)/expense in the financial statements as follows:

(Loss)/Profit from operations	(23,229)	1,858	(12,006)	-
Income tax (benefit)/expense calculated at 30%	(6,969)	557	(3,602)	-
Non-deductible expense	25	31	-	-
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	24	140	-	-
Impairment losses on goodwill/investment that are not deductible	6,710	-	3,600	-
Previously unrecognised & unused tax losses now recognised as deferred tax assets	-	(3,729)	-	-
Other – R&D Tax Concession	(135)	(150)	-	-
Other	(535)	41	2	-
Under/(over) provision of income tax in previous year	266	134	-	-
<b>Total tax benefit</b>	<b>(614)</b>	<b>(2,976)</b>	<b>-</b>	<b>-</b>

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>Current tax assets</b>				
Prepaid taxes (US)	145	132	-	-
Tax refund (Australia)	214	-	-	-
Tax refund (Tax consolidated group)	124	114	124	114
	<b>483</b>	<b>246</b>	<b>124</b>	<b>114</b>
<b>Current tax liabilities:</b>				
Tax provision (Ellex Australia)	-	203	-	-
Tax provision (Europe)	-	24	-	-
	<b>-</b>	<b>227</b>	<b>-</b>	<b>-</b>

The company accounts have been revised for the 2008 comparative year to reflect the current tax balances for the Australian Tax consolidated group.

## Notes to the Financial Statements

### 5. Income Taxes cont'd

	Consolidated			
	1/07/2008	Charged to Income	Foreign Exchange	30/06/2009
<b>(c) Deferred tax balances</b>				
<b>Deferred tax assets/(liabilities) arising from the following:</b>				
<b>2009</b>				
<b>Temporary differences</b>				
PPE	137	(26)	-	111
Intangibles	3,979	(251)	-	3,728
Capitalised R&D	(1,768)	233	-	(1,535)
Fair value through profit or loss financial assets	(69)	186	-	117
Provisions	445	(58)	-	387
Doubtful debts	28	19	-	47
Other financial liabilities	760	(379)	-	381
Temporary timing difference on unearned profits	737	(63)	-	674
Other	53	(36)	-	17
	4,302	(375)	-	3,927
<b>Unused tax losses and credits</b>				
Tax losses (Japan)	1,671	(240)	378	1,809
Tax losses (USA)	265	-	-	265
Tax losses (Tax consolidated group)	-	1,207	-	1,207
	1,936	967	378	3,281
	6,238	592	378	7,208
	1/07/2007	Charged to Income	Foreign Exchange	30/06/2008
<b>2008</b>				
<b>Temporary differences</b>				
PPE	131	6	-	137
Intangibles	250	3,729	-	3,979
Capitalised R&D	(1,550)	(218)	-	(1,768)
Fair value through profit or loss financial assets	(37)	(32)	-	(69)
Provisions	304	141	-	445
Doubtful debts	28	-	-	28
Other financial liabilities	778	(18)	-	760
Temporary timing difference on unearned profits	937	(200)	-	737
Other	295	(242)	-	53
	1,136	3,166	-	4,302
<b>Unused tax losses and credits</b>				
Tax losses (Japan)	1,850	(216)	37	1,671
Tax losses (USA)	-	265	-	265
	1,850	49	37	1,936
	2,986	3,215	37	6,238

# Notes to the Financial Statements

## 5. Income Taxes cont'd

Deferred tax assets/(liabilities) arising from the following:

	Company			
	1/07/2008	Charged to Income	Foreign Exchange	30/06/2009
<b>2009</b>				
<b>Unused tax losses and credits</b>				
Tax losses (Tax consolidated group)	-	1,207	-	1,207
Intangibles	-	1,207	-	1,207

There were no 2008 comparative year deferred tax balances in the Company.

### (d) Tax consolidation

#### Relevance of tax consolidation to the consolidated group

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 31.

#### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Ellex Medical Lasers Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement 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 or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

## 6. Share-based payments

The consolidated group 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 as per the table below or within 2 months of when an employee ceases employment with the Company, whichever is the earlier.

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
Issued 30 September 2005 – 1	66,666	30/09/05	30/09/09	\$0.30	\$0.036
Issued 30 September 2005 – 2	66,667	30/09/05	30/09/10	\$0.40	\$0.019
Issued 30 September 2005 – 3	-	30/09/05	30/09/11	\$0.50	\$0.012
Issued 5 July 2006 – 1	66,666	05/07/06	30/09/09	\$0.70	\$0.119
Issued 5 July 2006 – 2	-	05/07/06	30/09/10	\$0.90	\$0.062
<b>Total</b>	<b>199,999</b>				

# Notes to the Financial Statements

## 6. Share-based payments cont'd

All options issued are subject to vesting rules based on meeting revenue and profit growth targets.

There were no share options issued or granted during the financial year.

Inputs into the model	Option series				
	30 Sept 2005-1	30 Sept 2005-2	30 Sept 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%	16.0%	16.0%
Option life	4 years	5 years	6 years	3 years	4 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:

	2009		2008	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of the financial year	3,899,999	\$0.42	4,033,331	\$0.49
Granted during the financial year	-	-	-	-
Lapsed during the financial year	(3,700,000)	\$0.45	(133,332)	\$0.35
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year	199,999	\$0.47	3,899,999	\$0.42
Exercisable at end of the financial year	199,999	\$0.47	3,899,999	\$0.42

There were no share options exercised during 2009 and the following share options granted under the employee share option plan were exercised during the financial year 2008:

2008 Options series	Number exercised	Exercise date	Share price at exercise date
Issued 30 September 2005-1	66,666	14/03/2008	\$0.67
Issued 30 September 2005-2	66,666	26/03/2008	\$0.61
Total	133,332		

## 7. Remuneration of auditors

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Auditor of the parent entity</b>				
Audit or review of the financial report	170,334	152,598	10,000	10,000
	170,334	152,598	10,000	10,000

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

# Notes to the Financial Statements

## 8. Trade and other receivables

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current</b>				
Trade receivables (i)	13,449	12,262	-	-
Allowance for doubtful debts	(274)	(92)	-	-
	13,175	12,170	-	-
Sundry deposits recoverable	830	691	-	-
Other receivables	196	96	-	-
Goods and services tax (GST) recoverable	57	81	-	-
	14,258	13,038	-	-
<b>Non Current</b>				
Sundry deposits recoverable	242	168	-	-
	242	168	-	-

- (i) The average credit period on sales of goods is 84 days (FY08: 89 days). The debtors balance that has been financed (note 19) is \$3,692 thousand (FY08: \$3,164 thousand). After deducting this balance, the average credit period on sales of goods is 61 days (FY08: 66 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before extending open credit terms to new distributors (Europe, Asia and Latin America), insurance coverage is gained for these distributors. Credit terms of 30-60 days (Japan: 90-180 days) are then extended to the customer up to the insured limit. Once the receivables balance passes 90 days, the customer is reported to the insurance Company and risk losing the coverage and open account trading terms. These limits are reviewed twice a year and if any particular concerns about payment are known, open accounts are closed, and prepayment or irrevocable letters of credit are required prior to shipment of sales orders. Additionally, insurance coverage is held for approximately 90% of Ellex Japan's receivable balance of \$7.6 million (FY08: \$5.9 million).

The remainder of the receivables balance is made up of the uninsured balances, predominately from USA and Australia. Prior to extending credit terms to customers, a signed purchase order agreeing to the terms and conditions of the sale is received, showing a commitment to make the payment. If there is any doubt about the ability of the customer to pay (due to previous experience), prepayment is requested. There is no reason to believe that this balance is not recoverable.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Ageing of past due but not impaired</b>				
60 – 90 days	468	469	-	-
90 – 120 days	235	633	-	-
Total	703	1,102	-	-
<b>Movement in the allowance for doubtful debts</b>				
Balance at the beginning of the year	92	94	-	-
Amounts written off as uncollectible	(28)	(2)	-	-
Amounts provided for during the year	210	-	-	-
Balance at the end of the year	274	92	-	-



# Notes to the Financial Statements

## 8. Trade and other receivables cont'd

In determining the recoverability of a trade receivable, the consolidated group considers any change in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The concentration of credit risk is limited due to the customer base being large, unrelated and insured. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of \$74 thousand (2008: \$nil) which have been placed under liquidation.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Ageing of impaired trade receivables</b>				
60 – 90 days	-	-	-	-
90 – 120 days	-	-	-	-
120+ days	74	-	-	-
<b>Total</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 9. Other current financial assets

### At fair value through profit or loss:

Foreign currency forward contracts	-	275	-	-
	-	275	-	-

## 10. Current inventories

Raw materials – at cost	2,828	3,580	-	-
Raw materials – at net realisable value	76	100	-	-
Work in progress – at cost	1,441	2,451	-	-
Work in progress - at net realisable value	12	19	-	-
Finished goods – at cost	11,384	11,428	-	-
Finished goods – at net realisable value	142	167	-	-
	<b>15,883</b>	<b>17,745</b>	<b>-</b>	<b>-</b>

## 11. Other current assets

Prepayments	899	1,008	-	-
	<b>899</b>	<b>1,008</b>	<b>-</b>	<b>-</b>

## 12. Other non-current financial assets

Investment in subsidiaries at cost	-	-	24,478	24,478
Impairment of investment (i)	-	-	(12,000)	-
Receivable from controlled entity (ii)	-	-	10,131	9,816
	<b>-</b>	<b>-</b>	<b>22,609</b>	<b>34,294</b>

- (i) The investment in the subsidiaries has been deemed to be impaired due to insufficient recoverable retained earnings able to be repaid as dividends.
- (ii) No issues have been determined that will affect the recoverability of this receivable.

# Notes to the Financial Statements

## 13. Property, plant and equipment

	Consolidated			
	Buildings \$'000	Plant and equipment at cost \$'000	Equipment under finance lease at cost \$'000	Total \$'000
<b>Gross carrying amount</b>				
<b>Balance at 1 July 2007</b>	70	4,968	385	5,423
Additions	54	1,779	30	1,863
Disposals	-	(9)	(32)	(41)
Net foreign currency exchange differences	-	(43)	-	(43)
<b>Balance at 30 June 2008</b>	124	6,695	383	7,202
Additions	7	596	41	644
Disposals	(10)	(158)	-	(168)
Net foreign currency exchange differences	-	242	-	242
<b>Balance at 30 June 2009</b>	121	7,375	424	7,920
<b>Accumulated depreciation/amortisation and impairment</b>				
<b>Balance at 1 July 2007</b>	(8)	(2,558)	(125)	(2,691)
Disposals	-	8	18	26
Depreciation	(17)	(785)	(12)	(814)
Net foreign currency exchange differences	-	38	-	38
<b>Balance at 30 June 2008</b>	(25)	(3,297)	(119)	(3,441)
Depreciation	(16)	(916)	(16)	(948)
Disposals	5	126	-	131
Net foreign currency exchange differences	-	(112)	-	(112)
<b>Balance at 30 June 2009</b>	(36)	(4,199)	(135)	(4,370)
<b>Net book value</b>				
As at 30 June 2008	99	3,398	264	3,761
<b>As at 30 June 2009</b>	85	3,176	289	3,550

The parent Company has no property, plant and equipment at 30 June 2009.

## Notes to the Financial Statements

### 13. Property, plant and equipment cont'd

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Leasehold Improvements	16	17	-	-
Plant and equipment	916	785	-	-
Equipment under finance lease	16	12	-	-
	948	814	-	-

### 14. Goodwill

#### Gross carrying amount

Balance at beginning of financial year	21,680	21,465	-	-
Additions (revised) (i)	687	215	-	-
Balance at end of financial year	22,367	21,680	-	-

#### Accumulated impairment losses

Balance at beginning of financial year	-	-	-	-
Impairment losses for the year (ii)	(22,367)	-	-	-
Balance at end of financial year	(22,367)	-	-	-

#### Net book value

At the beginning of the financial year	21,680	21,465	-	-
At the end of the financial year	-	21,680	-	-

- (i) During the financial year, the Group assessed the final earn-outs payable in 2009/2010 to the previous owners of the business acquired in 2006/2007.
- (ii) During the financial year, the Group assessed the recoverable amount of goodwill and determined that all the goodwill was fully impaired. The main contributing factor to the impairment was the uncertainty in relation to future cash flows of the three individual cash generating units, caused by the global financial crisis.

#### Allocation of goodwill to cash-generating units

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

##### Individual cash-generating units (Note 31 subsidiaries listing)

- Ellex Inc.
- Ellex Medical Pty Ltd
- Ellex Australia Pty Ltd

# Notes to the Financial Statements

## 14. Goodwill cont'd

During the financial year the consolidated group assessed the recoverable amount of goodwill and determined that it was fully impaired. The carrying amount of goodwill allocated to cash-generating units that are significant individually or in aggregate is as follows:

	Consolidated	
	2009 \$'000	2008 \$'000
Ellex Inc.	-	5,948
Ellex Medical Pty Ltd	-	14,968
Ellex Australia Pty Ltd	-	764
	-	21,680

### 2009

#### Ellex Medical Pty Ltd

#### Ellex Inc.

#### Ellex Australia Pty Ltd

The recoverable amount of the above cash-generating units operations are 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 18.12% 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 2%. The Company has assessed that due to the current volatility in global financial markets and the impact of this on the environment the Company's customers operate in, that there is significant uncertainty in relation to the future cash flows that will be generated by each of the above cash-generating units. The effect of this uncertainty was to decrease the recoverable amount of each cash-generating unit to below its carrying amount. Accordingly, an impairment loss was recognised, reducing the carrying amount of goodwill to nil for each cash-generating unit. The carrying amount of other assets in each cash-generating unit was not affected.

### 2008

#### Ellex Medical Pty Ltd

#### Ellex Inc.

#### Ellex Australia Pty Ltd

The recoverable amount of the above cash-generating units operations are 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 15.7% 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 above cash-generating units operations-global carrying amount to exceed its recoverable amount.

## 15. Other intangible assets

	Consolidated
	Patents & Trademarks \$'000
<b>Gross carrying amount</b>	
Balance at 30 June 2007	232
Additions	287
Balance at 30 June 2008	519
Additions	182
Balance at 30 June 2009	701

## Notes to the Financial Statements

### 15. Other intangible assets cont'd

	Consolidated Patents & Trademarks \$'000
<b>Accumulated amortisation and impairment</b>	
Balance at 30 June 2007	(81)
Amortisation expense	1
Balance at 30 June 2008	(80)
Amortisation expense	(12)
Balance as at 30 June 2009	(92)
Net book value	
As at 30 June 2008	439
As at 30 June 2009	609

The parent entity has no intangible assets at 30 June 2009.

### 16. Capitalised development expenditure

	Consolidated Capitalised development \$'000
<b>Gross carrying amount</b>	
Balance at 30 June 2007	6,714
Additions from internal developments	1,320
Balance at 30 June 2008	8,034
Impairment write-off	(1,940)
Additions from internal development	1,981
Balance at 30 June 2009	8,075
<b>Accumulated amortisation and impairment</b>	
Balance at 30 June 2007	(929)
Amortisation expense	(592)
Balance at 30 June 2008	(1,521)
Impairment write-off	484
Amortisation expense	(897)
Balance as at 30 June 2009	(1,934)
Net book value	
As at 30 June 2008	6,513
As at 30 June 2009	6,141

An amount of \$1,456 thousand has been written off as impaired during the year ended 30 June 2009 due to discontinuing a product line previously recognised as capitalised development expenditure. The related deferred grant income (Note 23) of \$785 thousand has also been recognised in relation to this impairment.

The parent entity has no capitalised development expenditure at 30 June 2009.

# Notes to the Financial Statements

## 17. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in Note 19 to the financial statements, all non-current assets of the consolidated group (except goodwill, capitalised development and deferred tax assets), have been pledged as security.

## 18. Current trade and other payables

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade payables (i)	3,141	4,379	-	-
Payable to previous owners of acquired businesses	900	626	-	-
Accruals	1,052	1,504	-	-
Payable to directors	127	77	-	-
Other payables	1,517	1,499	-	-
	6,737	8,085	-	-

- (i) The average credit period on purchases of certain goods from the invoice date is 41 days (2008: 55 days), certain goods from the United States have terms of 60 days, and from Europe, 90 days. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 19. Borrowings

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Secured – at amortised cost</b>				
<b>Current</b>				
Bank overdrafts (note 34a) (ii)	31	852	-	-
Commercial Bills (i) (ii)	6,500	5,000	-	-
Finance lease liabilities (note 30) (i) (ii) (iii)	123	43	-	-
Debtor Financing Facility (v)	3,692	3,164	-	-
Other – Finance Advance (iv)	140	116	-	-
	10,486	9,175	-	-
<b>Non-Current</b>				
Commercial Bills (i) (ii)	-	1,300	-	-
Finance lease liabilities (Note 30) (i) (ii) (iii)	-	80	-	-
	-	1,380	-	-

## Summary of borrowing arrangements

- (i) All borrowings are current due to breach of loan agreement.  
(ii) Secured by a fixed and floating charge over the Group's assets.  
(iii) Secured by the assets leased. The borrowings are all at fixed interest rates with repayment periods not exceeding 5 years.  
(iv) Secured over the Group's insurance policy.

# Notes to the Financial Statements

## 19. Borrowings cont'd

- (v) 350 million Japanese Yen facility to finance debtors up to 120 days with interest being charged at an average of 3% p.a. (2008: 3% p.a.). This is a Limited Recourse Trade Finance Facility secured by insurance over the debtor balances financed. The cash flows from this balance are reflected in "Receipts from customers" as the facility utilised is a cash amount (net of discount interest) received upon financing the debtor balances.

### Breach of loan agreement

During the financial year, the Group breached the loan covenants by not meeting the capital adequacy ratio (equity ratio) and interest cover ratio during the financial year. The lender extended the facility to 31 October 2009 as detailed in Note 1 and Note 35(a) to the financial statements.

## 20. Other financial liabilities

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
At fair value through profit or loss:				
Foreign currency forward contracts	389	-	-	-
	389	-	-	-

## 21. Provisions

### Current

Employee benefits (i)	1,134	1,248	-	-
Warranty (ii)	644	413	-	-
Other provision (iii)	-	75	-	-
	1,778	1,736	-	-

### Non-Current

Employee benefits	293	218	-	-
	2,071	1,954	-	-

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Warranty				
Balance at 1 July 2008		413		-
Additional provisions recognised		675		-
Payments made		(444)		-
Balance at 30 June 2009		644		-

- (i) The current provision for employee benefits includes \$173 thousand (2008: \$263 thousand) of vested long service leave entitlements accrued but not expected to be taken within 12 months.
- (ii) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the consolidated group's 2 year 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.
- (iii) The other provision represented the present value of the directors' best estimate of the costs directly and necessarily incurred for the closing of the office in San Francisco. This was completed by 30 June 2009.

# Notes to the Financial Statements

## 22. Other current liabilities

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Deferred grant income	385	439	-	-
	385	439	-	-

## 23. Other non-current liabilities

Payable to previous owners of acquired businesses	-	861	-	-
Deferred grant income	786	1,879	-	-
	786	2,740	-	-

## 24. Issued capital

84,910,345 fully paid ordinary shares (2008: 68,530,839)	35,176	33,635	35,176	33,635
	35,176	33,635	35,176	33,635

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.

	Company 2009		Company 2008	
	No '000	\$'000	No '000	\$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	68,531	33,635	68,398	33,544
Issued Shares – capital raising (ii)	16,379	1,638	-	-
Issued Shares – options exercised	-	-	133	47
Share issue (costs)/benefits (i)	-	(97)	-	44
Balance at end of financial year	84,910	35,176	68,531	33,635

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

- (i) In 2007, share issue costs of \$193 thousand were included, however, in 2008 these were revised to \$136 thousand, and other share issue costs of \$13 thousand were included.
- (ii) On 6 January 2009 16,379,506 shares were issued pursuant to the non-renounceable rights issue dated 2 December 2008 of 1 share for every 2 shares held at an issue price of \$0.10 per share.



# Notes to the Financial Statements

## 24. Issued capital cont'd

### Share options

66,666 (2008: 933,331) 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.

66,667 (2008: 1,266,668) 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.

Nil (2008: 1,333,336) 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.

66,666 (2008: 199,998) 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.

Nil (2008: 166,666) 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 note 6 to the financial statements.

## 25. Reserves

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Share option reserve				
Balance at beginning of financial year	113	88	-	-
Employee Share based payments	-	25	-	-
Lapsed – Employee Share Options	(97)	-	-	-
Balance at end of financial year	16	113	-	-

The share option reserve arises on the grant of share options to executives and employees under the executive and employee 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 6 to the financial statements.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Foreign currency translation reserve				
Balance at beginning of financial year	(2,434)	(2,045)	-	-
Translation of foreign operations	3,281	(389)	-	-
Balance at end of financial year	847	(2,434)	-	-

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

Net reserves	863	(2,321)	-	-
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## Notes to the Financial Statements

### 26. Accumulated losses/retained earnings

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at beginning of financial year	16,417	11,672	775	775
Net (loss)/profit attributable to members of the parent entity	(22,616)	4,745	(12,006)	-
Balance at end of financial year	(6,199)	16,417	(11,231)	775

### 27. Earnings per share

	Consolidated	Company
	2009 Cents per share	2008 Cents per share
<b>Basic earnings per share:</b>		
Total basic earnings per share	(29.6)	6.93
<b>Diluted earnings per share:</b>		
Total diluted earnings per share	(29.6)	6.84

#### 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	
	2009 \$'000	2008 \$'000
Net (loss)/profit	(22,616)	4,745

	Consolidated	
	2009 No.	2008 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	76,428,902	68,436,071

## Notes to the Financial Statements

### 27. Earnings per share cont'd

#### 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:

	Consolidated	
	2009 \$'000	2008 \$'000
Net (loss)/profit	(22,616)	4,745

  

	2009 No.	2008 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	76,428,902	68,436,071
Shares deemed to be issued for no consideration in respect of:		
Employee options	-	972,393
Weighted average number of ordinary shares used in the calculation of diluted EPS (i)	76,428,902	69,408,464

- (i) The share options in Note 6 are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share.

### 28. Dividends

	2009		2008	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Company	
	2009 \$'000	2008 \$'000
Adjusted franking account balance	3,566	3,285

### 29. Commitments for expenditure

#### Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 30 to the financial statements.

# Notes to the Financial Statements

## 30. Leases

### (a) 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 group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements.

The consolidated group's obligation under finance leases are secured by the lessor's title to the leased assets.

#### Finance lease liabilities

	Minimum Future Lease Payments				Present Value of Minimum Future Lease Payments			
	Consolidated		Company		Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Not longer than 1 year	140	52	-	-	123	43	-	-
Later than 1 year and not later than 5 years	-	90	-	-	-	80	-	-
Later than 5 years	-	-	-	-	-	-	-	-
Minimum future lease payments	140	142	-	-	123	123	-	-
Less future finance charges	(17)	(19)	-	-	-	-	-	-
Present value of minimum lease payments	123	123	-	-	123	123	-	-
Included in the financial statements as: (Note 19)								
Current borrowings					123	43	-	-
Non-current borrowings					-	80	-	-
					123	123	-	-

### (b) Operating leases

#### Leasing arrangements

Operating leases relate to business premises with lease terms of between 3 to 5 years.

The business premises leases will be reviewed at the end of the lease term.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Non-cancellable operating lease payments</b>				
Not longer than 1 year	841	811	-	-
Longer than 1 year and not longer than 5 years	451	1,116	-	-
	1,292	1,927	-	-

# Notes to the Financial Statements

## 31. Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2009 %	2008 %
<b>Parent Entity</b>			
Ellex Medical Lasers Limited (ii) (iii)	Australia		
<b>Subsidiaries</b>			
Ellex Medical Pty Ltd (ii) (iii)	Australia	100	100
Laserex Medical Pty Ltd (iii)	Australia	100	100
Ellex (USA) Inc	USA	100	100
Ellex (Japan) Corporation	Japan	100	100
Ellex R&D Pty Ltd (ii) (iii)	Australia	100	100
Ellex Australia Pty Ltd	Australia	80	80
Ellex Services Europe SARL	France	100	100
Innovative Imaging, Inc	USA	100	100
Ellex Deutschland GmbH (i)	Germany	100	100

- (i) In June 2008, Ellex Deutschland GmbH was incorporated in Germany.
- (ii) Ellex Medical Lasers Limited is the head of the Tax Consolidated Group which includes Ellex Medical Pty Ltd and Ellex R&D Pty Ltd.
- (iii) These wholly-owned subsidiaries have entered into a deed of cross-guarantee with Ellex Medical Lasers Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report for the year ended 30 June 2009.

The consolidated income statement and balance sheet of the entities party to the deed of cross guarantee are:

	Consolidated	
	2009 \$'000	2008 \$'000
<b>Income Statement</b>		
Revenue	37,961	37,438
Other income	2,763	1,946
Loss on sale of property, plant and equipment	(4)	(3)
Raw materials and consumables used	(24,912)	(23,981)
Employee benefits expense	(7,914)	(9,855)
Depreciation and amortisation expense	(2,977)	(1,138)
Legal fees	(115)	(103)
Advertising and marketing	(1,100)	(1,235)
Finance costs	(632)	(626)
Product development	(579)	(253)
Mark-To-Market unrealised foreign exchange (loss)/gain	(664)	275
Foreign currency translation movement	5,246	(2,311)
Impairment of goodwill	(16,239)	-
Other expenses	(3,899)	(1,769)
Loss before income tax	(13,065)	(1,615)
Income tax credit/(expense)	(903)	3,441
(Loss)/Profit for the year	(13,968)	1,826

# Notes to the Financial Statements

## 31. Subsidiaries cont'd

	Consolidated	
	2009 \$'000	2008 \$'000
<b>Balance Sheet</b>		
<b>Current assets</b>		
Cash assets	113	111
Trade and other receivables	6,553	6,465
Other financial assets	-	275
Inventories	5,657	8,458
Current tax assets	1,343	114
Other	494	904
<b>Total current assets</b>	<b>14,160</b>	<b>16,327</b>
<b>Non-current assets</b>		
Trade and other receivables	20,563	16,467
Other financial assets	3,144	2,767
Property, plant and equipment	3,094	3,327
Deferred tax assets	3,239	3,565
Goodwill	-	16,239
Other intangible assets	600	434
Capitalised development expenditure	5,117	5,894
<b>Total non-current assets</b>	<b>35,757</b>	<b>48,693</b>
<b>Total assets</b>	<b>49,917</b>	<b>65,020</b>
<b>Current liabilities</b>		
Trade and other payables	4,721	5,249
Borrowings	6,765	6,585
Other financial liabilities	389	-
Provisions	990	1,181
Other	473	461
<b>Total current liabilities</b>	<b>13,338</b>	<b>13,476</b>
<b>Non-current liabilities</b>		
Borrowings	-	1,357
Provisions	293	218
Other liabilities	698	1,856
<b>Total non-current liabilities</b>	<b>991</b>	<b>3,431</b>
<b>Total liabilities</b>	<b>14,329</b>	<b>16,907</b>
<b>Net assets</b>	<b>35,588</b>	<b>48,113</b>
<b>Equity</b>		
Issued capital	35,190	33,650
Reserves	16	113
Retained earnings	382	14,350
	<b>35,588</b>	<b>48,113</b>

# Notes to the Financial Statements

## 32. Segment information

The primary segment of the consolidated group is the business of selling ophthalmic medical 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

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

	Revenue from External customers		Segment assets		Acquisition of segment assets	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australia	6,474	6,075	25,922	51,637	647	3,275
USA	13,374	12,273	7,235	6,698	158	226
Europe	14,416	13,262	533	254	19	9
Japan	19,353	13,793	17,215	13,352	2	132
Asia	1,956	2,131	-	-	-	-
Other	2,723	2,781	-	-	-	-
<b>Total of all segments</b>	<b>58,298</b>	<b>50,315</b>	<b>50,905</b>	<b>71,941</b>	<b>826</b>	<b>3,642</b>

**Australia** The consolidated group manufactures all of its laser 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 manufactured and a number of other ophthalmic products to complete the full range.

**USA** The consolidated group 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 subsequently merged into Ellex Inc from 1 July 2007 and ophthalmic ultrasounds were added to the sales base. These products are manufactured and sold from California. USA includes OEM products sold in the USA of \$1,325 thousand in 2009 (2008: \$2,764 thousand).

**Europe** The consolidated group 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. From 1 July 2008, an office was established in Mainhausen, Germany which has service and sales managers selling a broad range of Ellex products directly into Germany.

**Japan** The consolidated group sells a broad range of its products in Japan.

**Asia** The consolidated group sells a broad range of its products in Asia.

# Notes to the Financial Statements

## 33. 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 31 to the financial statements.

### (b) Transactions with key management personnel

Details of key management personnel compensation are disclosed in Directors' Report.

### (c) Key management personnel compensation

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

	Consolidated	
	2009 \$	2008 \$
Short-term employee benefits	2,279,639	2,051,643
Post-employment benefits	159,588	139,181
Other long-term benefits	-	-
Termination benefits	174,826	157,895
Share-based payment	-	9,600
	2,614,053	2,358,319

### (d) Key management personnel equity holdings

Fully paid ordinary shares of Ellex Medical Lasers Limited

2009	Balance @ 1/7/08 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/09 No.	Balance held nominally No.
V Previn	3,566,034	-	-	5,749,997	9,316,031	9,316,031
A Sundich	3,460,000	-	-	2,840,000	6,300,000	5,300,000
J Marshall	50,000	-	-	-	50,000	-
G Canala (i)	2,061,788	-	-	2,000,000	4,061,788	4,046,788
M Plunkett (i)	50,000	-	-	-	50,000	-
C Warren	130,700	-	-	-	130,700	-
B Swaim	128,000	-	-	-	128,000	-
S Luscombe (ii)	1,300	-	-	24,368	25,668	-
Y Isoda	-	-	-	700,000	700,000	-
M Young (ii)	3,000	-	-	10,000	13,000	-
D Watton (ii)	20,000	-	-	-	20,000	-
J Edwards	-	-	-	40,000	40,000	-
M Greenwood (ii)	14,960	-	-	-	14,960	14,960
	9,485,782	-	-	11,364,365	20,850,147	18,677,779



# Notes to the Financial Statements

## 33. Related party disclosures cont'd

### (d) Key management personnel equity holdings cont'd

Fully paid ordinary shares of Ellex Medical Lasers Limited

2008	Balance @ 1/7/07 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/08 No.	Balance held nominally No.
V Previn	3,566,034	-	-	-	3,566,034	3,566,034
P Falzon (iii)	760,000	-	-	-	760,000	-
A Sundich	3,400,000	-	-	60,000	3,460,000	2,460,000
J Marshall	50,000	-	-	-	50,000	-
K McGuinness (iii)	503,333	-	-	-	503,333	105,000
C Warren	31,700	-	-	99,000	130,700	-
H Pummer (iii)	93,000	-	-	-	93,000	-
B Swaim	50,000	-	-	78,000	128,000	-
	8,454,067	-	-	237,000	8,691,067	6,131,034

Executive share options of Ellex Medical Lasers Limited

2009	Balance @ 1/7/08 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/09 No.	Balance held nominally No.
P Falzon (iv)	2,200,000	-	-	(2,200,000)	-	-
K McGuinness (iv)	666,667	-	-	(666,667)	-	-
H Pummer (iv)	100,000	-	-	(100,000)	-	-
M Plunkett (v)	133,333	-	-	-	133,333	-
D Watton (v)	66,666	-	-	-	66,666	-
	3,166,666	-	-	(2,966,667)	199,999	-

Executive share options of Ellex Medical Lasers Limited

2008	Balance @ 1/7/07 No.	Granted as compensation No.	Options exercised No.	Net other change No.	Balance @ 30/6/08 No.	Balance held nominally No.
P Falzon	2,200,000	-	-	-	2,200,000	-
K McGuinness	666,667	-	-	-	666,667	-
H Pummer	100,000	-	-	-	100,000	-
	2,966,667	-	-	-	2,966,667	-

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.

- (i) Mr G Canala and Mr M Plunkett were not directors or key management personnel in 2008.
- (ii) Mr S Luscombe, Ms M Young, Mrs M Greenwood and Mr D Watton were not part of the key management personnel in 2008.
- (iii) Mr H Pummer, Mr K McGuinness and Mr P Falzon were not included in 2009 as they are no longer key management personnel.
- (iv) Options lapsed due to no longer being employed.
- (v) Mr M Plunkett and Mr D Watton were not considered key management personnel in 2008, however they held share options as at 1 July 2008.

# Notes to the Financial Statements

## 33. Related party disclosures cont'd

### (e) Transactions with other related parties

Other related parties include:

- the parent entity;
- subsidiaries;
- key management personnel of the consolidated group, and
- any other related parties.

At 30 June 2009, the following balances arising from transactions with Key Management personnel of the Group remain outstanding by the Group:

- Amounts payable to (related to remuneration paid in arrears):
  - V Previn \$97,409
  - A Sundich \$6,250
  - J Marshall \$4,105
  - G Canala \$9,583
  - M Plunkett \$10,000
- Amounts receivable from (related to advance on expenses):
  - S Luscombe \$799

At 30 June 2008, the following balances arising from transactions with Key Management personnel of the Group remain outstanding by the Group:

- Amounts payable to (related to remuneration paid in arrears):
  - V Previn \$62,409
  - A Sundich \$6,250
  - J Marshall \$8,094
  - P Falzon \$157,895 (termination benefits payable)

All loans advanced to and payable to related parties are unsecured.

### Transactions between Ellex Medical Lasers Limited and its related parties

The following balances arising from transactions between the Company and its other related parties are outstanding at reporting date:

- Loan receivables totalling \$10,131 thousand (2008: \$9,816 thousand) are receivable from subsidiaries (Note 12).

### Transactions between the Group and its related parties

During the financial year ended 30 June 2009, the following transactions occurred between the Group and its other related parties:

- Interest payments of \$454 thousand (2008: \$251 thousand) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 4.535% (2008: 3.235%). Interest is payable annually.
- Sales between the subsidiaries totalled \$20,615 thousand (2008: \$18,031 thousand) during the year. Payment terms are 60 days.
- Management fees were charged between subsidiaries of \$1,561 thousand (2008: \$1,284 thousand) during the year for management, accounting, marketing and communications support.

# Notes to the Financial Statements

## 34. Notes to the cash flow statement

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	1,632	830	5	2
Bank overdraft (Note 19)	(31)	(852)	-	-
	1,601	(22)	5	2

### (b) Financing facilities

Secured bank facilities with various maturity dates through to 31 October 2009 and which may be extended by mutual agreement:

#### Flexible Options Finance (overdraft facility)

Amount used (Note 19)	5,031	5,852	-	-
Amount unused	2,369	1,548	-	-
	7,400	7,400	-	-

#### Commercial Bill line (acquisitions)

Amount used (Note 19)	1,500	1,300	-	-
Amount unused	-	-	-	-
	1,500	1,300	-	-

#### Invoice finance (Australia)

amount used (Note 19)	-	40	-	-
amount unused	1,500	1,460	-	-
	1,500	1,500	-	-

#### Equipment Finance and Finance Advance (insurance premium)

amount used (Note 19)	263	239	-	-
amount unused	-	-	-	-
	263	239	-	-

#### Other facilities

amount used (Note 19)	-	-	-	-
amount unused	500	500	-	-
	500	500	-	-

#### Debtor finance (Japan)

	Million JPY	Million JPY	Million JPY	Million JPY
amount used (i)	284	319	-	-
amount unused	66	31	-	-
	350	350	-	-

- (i) At the reporting dates, these amounts outstanding totalled \$3,692 thousand (2008: \$3,124 thousand).  
The total debtors facility can only be drawn down against eligible debtors in accordance with the agreement.

# Notes to the Financial Statements

## 34. Notes to the cash flow statement cont'd

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(c) Reconciliation of profit for the period to net cash flows from operating activities</b>				
Profit/(loss) for the period	(22,615)	4,834	(12,006)	-
Depreciation and amortisation of non-current assets	1,857	1,405	-	-
Loss on disposal of property, plant and equipment	3	3	-	-
Impairment of capitalised development expenditure	672	-	-	-
Impairment of goodwill/investment	22,367	-	12,000	-
Employee share options	(97)	25	-	-
Interest income received and receivable	(12)	(52)	-	-
Unrealised mark-to-market foreign exchange (loss)/gain	664	(275)	-	-
Increase in tax balances	(1,434)	(3,160)	-	-
	1,405	2,780	(6)	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
<b>(Increase)/decrease in assets:</b>				
Current receivables	1,901	(916)	-	-
Current inventories	1,862	(3,016)	-	-
Other current assets	384	(465)	-	-
<b>Increase/(decrease) in liabilities:</b>				
Current payables	(935)	(249)	-	-
Other current & non current liabilities	(641)	677	-	-
Net cash from operating activities	3,976	(1,189)	(6)	-

## 35. Financial instruments

### (a) Capital risk management

The consolidated group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance.

The consolidated group's overall strategy remains unchanged from 2008.

The capital structure of the consolidated group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 24, 25 and 26 respectively. The consolidated group operates globally, primarily through subsidiary companies established in the markets in which the consolidated group trades. None of the subsidiary companies are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand manufacturing facilities and distribution assets, as well as make routine out flows of tax and repayment of maturing debt. The consolidated group's policy is to borrow centrally, using capital market issues and borrowing facilities to meet anticipated funding requirements.

# Notes to the Financial Statements

## 35. Financial instruments cont'd

### Gearing ratio

The audit committee reviews the capital structure on a semi-annually basis. The consolidated group monitors the gearing ratio to determine the proportion of net debt to equity and in 2008 the target was 20-25%. This target is dependent on the ability to raise funds through debt versus equity and has been broadened to 20-30% in 2009. The balance of the capital structure will be managed through the issue of new shares, issues or redemption of debt, the payment of dividends or through share buy-backs.

The gearing ratio at year end was as follows:

	Consolidated	
	2009 \$'000	2008 \$'000
<b>Financial Assets</b>		
Debt (i)	10,486	10,555
Cash and cash equivalents	(1,632)	(830)
<b>Net debt</b>	<b>8,854</b>	<b>9,725</b>
Equity (ii)	30,051	47,941
Net debt to equity ratio	29.5%	20.3%

(i) Debt is defined as long- and short-term borrowings, as detailed in Note 19.

(ii) Equity includes all capital and reserves.

### Externally imposed capital requirements

The consolidated group is subject to externally imposed capital requirements by its provider of borrowings. The nature of these requirements is as follows:

- Equity ratio to be maintained at not less than 45%, measured as “total tangible assets less liabilities divided by total tangible assets”
- Interest cover to be maintained at 3 times, measured as “earnings before interest and tax divided by total interest expense”
- Stock and debtors covenant whereby “group combined stock and debtors are to be maintained at a minimum of \$12,000,000”
- Dividends covenant whereby “in any one financial year, dividend declarations and distributions to shareholders must not exceed 50% of net profit after tax for that year without prior consent of the Bank”

The requirements are monitored on a continual basis and form part of the regular management and Board reporting. For the year ended 30 June 2009 these were not met from December 2008. As a consequence of this breach, all debt has been re-classified as current at 30 June 2009. The lender has extended the facility to 31 October 2009 as detailed in Note 1 to the financial statements.

For the year ended 30 June 2008, all these requirements were met.

### (b) Financial risk management objectives

The consolidated group's Finance function has established a Treasury Committee which 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 group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated group 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 group'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. During the financial year, the Board of Directors minuted that all future foreign currency hedging is to cease until further notice.

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.

# Notes to the Financial Statements

## 35. Financial instruments cont'd

### (c) Categories of financial instruments

The categories of financial instruments are identified in the Balance Sheet and notes thereto.

### (d) Loans and receivables designated as at 'fair value through profit or loss'

There were no loans and receivables designated as at 'fair value through profit or loss' in 2009 or 2008.

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount in the financial report represents the Company's and the consolidated group's maximum exposure to credit risk for such loans and receivables.

### (e) Market risk

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

- Forward exchange contracts and collar options to hedge the exchange rate risk arising on the sale of ophthalmic equipment in foreign currencies.

At the consolidated group and Company level market risk exposures are measured using sensitivity analysis. There has been no change in the consolidated group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

### (f) Foreign currency risk management

The consolidated 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. A Treasury Committee exists to oversee the day-to-day operation of the policy.

The nature of the consolidated group's exposure to foreign currency risks and the circumstances in which they arise is as follows:

- Price lists

The consolidated group issues price lists for its products in foreign currency, generally set in terms of its annual budgeted exchange rate, incorporating an exchange rate variation clause under its terms and conditions of sale.

- Sales and purchases in foreign currency

The consolidated group's major exposure arises from the export of products in foreign currency to off shore locations such as USA, Europe and Japan and the import raw materials also denominated in foreign currency. The consolidated group strives to offset as much of this exposure within its capacity of a natural hedge, and manage the net exposure.

The objectives, policies and processes for managing foreign currency risk and the methods used to measure the risk are as follows:

### Objective

The objective of the consolidated group's foreign currency risk policy is to seek to minimise the volatility associated with foreign currency rates and deliver AUD cash flows with reasonable certainty. A budgeted exchange rate is used by the consolidated group to assist in hedging decisions.

### Policy & processes

The management of consolidated group's foreign exchange risk is a two-stage process. The first is to assess the degree of natural hedge (offset purchases against receipts in same currencies) and then manage the 'net' exposure.

### Natural Hedge

The consolidated group identifies any natural hedge that arises as a result of purchases/outflows denominated in the foreign currency which are able to be offset against sales/inflows received.

Timing differences between the inflows and outflows are managed using the following techniques:

- Foreign Currency Deposit Accounts - to store surplus funds from time-to-time;
- Foreign Currency Loans - where working capital requirements are drawn from time-to-time and repaid with foreign currency receipts; and
- Foreign Currency Swap - involving simultaneous purchase and sale of foreign currency against Australian dollars (or vice versa) for short-term mismatches in timing.

### Net Exposure

Management of the net exposure uses a disciplined approach with consideration to the underlying exposure.

The consolidated group uses the following framework to minimise its foreign currency risk to an adverse movement in the Australian dollar with consideration to its budgeted exchange rate.

- A 'committed' foreign currency exposure is incurred at the time the consolidated group enters into a firm contract to sell, or buy goods in a foreign currency; and
- An 'uncommitted' foreign exchange exposure relates to anticipated foreign currency cash flow or outstanding tenders to sell, or buy goods in a foreign currency.

Such classification provides parameters as to what hedging instruments are to be used, so as not to commit the consolidated group to any added risk.

## 35. Financial instruments cont'd

### (f) Foreign currency risk management cont'd

#### Hedging Framework

The foreign currency hedging profile on the consolidated group's uncommitted and committed positions is to conform to the following limits:

Time Horizon	Maximum (%) of net exposure	Maximum Limiting (%)	Minimum (%)
0 - 6 Mths	90	90	50
7 - 12 Mths	90	75	35
13 - 18 Mths	75	50	20
19 - 24 Mths	30	0	0

#### Product Policy

The approved products available for use within the foreign currency risk management policy are listed below.

Instrument – Limiting	Maximum Maturity
Spot Foreign Exchange	2 days
Forward Exchange Contract (including Foreign Currency Swaps)	18 Months, though not to exceed maturity of underlying exposure*
Limiting Options	18 Months, though not to exceed maturity of underlying exposure*
Instrument – Non Limiting	Maximum Maturity
Non-Limiting Options	2 Years

\* Historical rate rollover of hedging is permitted, provided there is still linkage to the underlying exposure.

Leverage is permitted, provided the total delivery obligation against the hedging instrument does not exceed the maximum hedging parameters above.

#### Reporting

A monthly report will be prepared for presentation to the Board which will at a minimum, detail the following:

- Exposure/Hedging Comparison to policy;
- The mark-to-market valuation of the consolidated group's foreign currency portfolio;
- Sensitivity analysis of above to changes in exchange rates; and
- Maturity profile listing of all outstanding foreign currency transactions.

#### Performance measurement

Performance shall be assessed in terms of compliance with policy.

#### Risk identification and quantification

Risk identification and quantification is achieved through timely information flow within the consolidated group and accountability at each appropriate organisational level to clearly identify, quantify and forecast financial exposures.

# Notes to the Financial Statements

## 35. Financial instruments cont'd

### (f) Foreign currency risk management cont'd

#### Interim policy

Due to the uncertainty of future cash flows and volatility of exchange rates that has occurred as a result of the current period of global economic uncertainty, during February 2009, the directors introduced an interim policy of not entering into any foreign exchange hedging contracts until a reasonable level of certainty returns to the global economy. The Group's hedging policy prior to this time is outlined above and is expected to be reinstated at a future point in time.

The Chief Financial Officer is advised of all financial exposures, both forecast and actual, within the consolidated group that arise from areas of marketing, manufacturing, purchasing, etc for collation and effective management within terms of this policy.

The carrying amount of the consolidated group's foreign currency denominated monetary assets and monetary liabilities at reporting date is as follows:

	Liabilities		Assets	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
US dollars	683	773	2,365	2,755
Japanese Yen	5,042	3,814	8,414	6,218

#### Foreign currency sensitivity analysis

The consolidated group is mainly exposed to USA dollars and Japanese Yen.

The following table details the consolidated group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currency. 10% represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in the currency rates. The sensitivity includes external loans. A positive number indicates an increase in profit or loss and other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balance below would be negative.

	USD Impact				Japanese Yen Impact			
	Consolidated		Company		Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit or loss	147	75	-	-	438	(10)	-	-

The exposures are mainly attributable to foreign currency denominated receivables, payables, cash and loans.



# Notes to the Financial Statements

## 35. Financial instruments cont'd

### (f) Foreign currency risk management cont'd

#### Forward foreign exchange contracts

It is the policy of the consolidated group to enter into forward foreign exchange contracts to cover foreign currency receipts within 50% to 90% of anticipated exposures in the following six months, 35% to 75% of anticipated exposures in the seven to 12 months time horizon and 20% to 50% of anticipated exposures in the 13 to 18 month time horizon.

The consolidated group has entered into contracts to protect against potential adverse currency fluctuations due to the sale of goods in foreign currencies. The consolidated group 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 losses under forward foreign exchange contracts relating to anticipated future transactions is \$389 thousand (2008: unrealised gains of \$275 thousand).

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	
	2009	2008	2009 FC'000	2008 FC'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

#### Sell USA Dollars

Less than 3 months	0.8266	0.9093	200	200	242	220	(5)	10
3 to 6 months	-	0.8980	-	200	-	223	-	10
Longer than 6 months	-	0.8539	-	600	-	696	-	40
	0.8266	0.8871	200	1,000	242	1,139	(5)	60

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009 FC Mill	2008 FC Mill	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

#### Sell Japanese Yen

Less than 3 months	95.000	96.62	(30)	25	(316)	259	72	9
3 to 6 months	84.260	88.23	21	45	250	508	(24)	49
Longer than 6 months	83.260	-	21	-	250	-	(23)	-
	87.507	92.425	12	70	184	767	25	58

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009 FC '000	2008 FC '000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

#### Sell Euro

Less than 3 months	0.592	-	50	-	85	-	(3)	-
3 to 6 months	-	-	-	-	-	-	-	-
Longer than 6 months	-	-	-	-	-	-	-	-
	0.592	-	50	-	85	-	(3)	-

Under collar options contracts, the consolidated group 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

## 35. Financial instruments cont'd

### (g) Interest rate risk management

#### 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	
	2009	2008	2009 \$	2008 \$	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Sell Japanese Yen</b>								
Not longer than 1 year	91.667	94.083	79.800	85.417	2,749	3,400	(406)	157
Longer than 1 year	-	-	-	-	-	-	-	-
<b>Total</b>					<b>2,749</b>	<b>3,400</b>	<b>(406)</b>	<b>157</b>

The consolidated group 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.

The sensitivity analysis below has been determined based upon exposures to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 100 basis points (2008: 50 basis points) higher or lower and all other variables were held constant, the consolidated group's:

- net profit after tax would increase by \$34 thousand and decrease by \$34 thousand (2008: increase by \$11 thousand and decrease by \$11 thousand). This is attributable to the consolidated group's exposure to interest rates on its variable rate borrowings.

The consolidated group's sensitivity to interest rates has increased during the current period mainly due to an increase in borrowings.

### (h) 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 group. The consolidated group 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 group 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 group 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 group and the Company do 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 group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

### i) Fair value of financial instruments

The carrying amount of all financial assets and liabilities approximate their fair value.

## Notes to the Financial Statements

### 35. Financial instruments cont'd

#### (j) Liquidity risk management

The consolidated group 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. Included in note 34(b) is a listing of undrawn facilities that the Company/consolidated group has at its disposal to further reduce liquidity risk.

#### (k) Maturity profile of financial instruments

The following tables detail the consolidated group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated group can be required to pay. The tables include both interest and principal cash flows.

2009	Average Interest Rate \$'000	Less than 1 month \$'000	Interest rate maturity			5+ years \$'000	Total \$'000
			1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000		
<b>Financial Liabilities</b>							
Overdraft	9.41%	31	-	-	-	-	31
Commercial Bills	4.71%	-	5,200	600	700	-	6,500
Finance Lease	8.23%	5	10	32	93	-	140
Finance Advance	3.61%	21	42	83	-	-	146
Forward Exchange Contracts (receivable)		-	11	(453)	-	-	(442)
Forward Exchange Contracts (payable)		-	(75)	500	-	-	425
Trade payables		-	3,141	-	-	-	3,141
Payable to directors		127	-	-	-	-	127
Debtor Finance Facility	3.00%	918	2,475	299	-	-	3,692
		1,102	10,804	1,061	793	-	13,760

As noted in Note 19 the consolidated group breached their loan covenants, hence all borrowings have been classified as current. Whilst these borrowings are classified as current the above maturity table has been prepared using the original contracted maturity cash flows.

2008	Average Interest Rate \$'000	Less than 1 month \$'000	Interest rate maturity			5+ years \$'000	Total \$'000
			1 to 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000		
<b>Financial Liabilities</b>							
Overdraft	11.62%	852	-	-	-	-	852
Commercial Bills	9.41%	-	5,000	-	1,300	-	6,300
Finance Lease & Advance	5.97%	24	48	136	90	-	298
Forward Exchange Contracts (receivable)		-	(498)	(1,264)	(262)	-	(2,024)
Forward Exchange Contracts (payable)		-	479	1,185	242	-	1,906
Trade payables		-	4,379	-	-	-	4,379
Payable to directors		77	-	-	-	-	77
Debtor Finance Facility	3.00%	787	2,121	256	-	-	3,164
		1,740	11,529	313	1,370	-	14,952

# Additional stock exchange information as at 20 September 2009

## Number of holders of equity securities

### Ordinary share capital

- 84,910,345 fully paid ordinary shares are held by 3,365 individual shareholders.

All issued shares carry one vote per share.

### Options

199,999 Employee options are held by 2 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	1,205	-
1,001 - 5,000	801	-
5,001 - 10,000	472	-
10,001 - 100,000	796	1
100,001 and over	91	1
	3,365	2
Holding less than a marketable parcel	1,540	-

## Substantial shareholders

Ordinary shareholders	Fully Paid	
	Number	Percentage
Sedico Pty Ltd	9,316,031	10.97%
Alexander Sundich and Gabrielle Upton (i)	6,300,000	7.42%
ANZ Nominees Pty Ltd	5,085,763	5.99%

- (i) Securities are registered in the names of Invia Custodian Pty Ltd, Pine Street Pty Ltd and Mr Alex Sundich + Mrs Gabrielle Upton.

# Additional stock exchange information as at 20 September 2009

## Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully Paid	
	Number	Percentage
Sedico Pty Ltd	9,316,031	10.97%
ANZ Nominees Limited	5,085,178	5.99%
Mr Giuseppe Canala + Mrs Mira Canala <Giuseppe Canala S/F A/C>	3,606,928	4.25%
Intertec Healthcare Management LLC	2,750,000	3.24%
Invia Custodian Pty Limited	2,700,000	3.18%
Pine Street Pty Ltd <Pine Street A/C>	2,600,000	3.06%
Mr Rahmon Charles Coupe + Mrs Julia Deborah Coupe <Super Fund A/C>	1,333,000	1.57%
JP Morgan Nominees Australia Limited	1,300,307	1.53%
Unley Underwriters Pty Limited	1,107,424	1.30%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan Super Fund A/C	1,025,000	1.21%
Lamed Medizin und Laboranlagenbau GmbH	1,000,000	1.18%
Mr Alex Sundich + Mrs Gabrielle Upton	1,000,000	1.18%
Ms Choi Chu Lee	973,000	1.15%
Forbar Custodians Limited <Forsyth Barr Ltd - nominee a/c>	804,016	0.95%
Citicorp Nominees Pty Limited	786,254	0.93%
Mr Yukitaka Isoda	700,000	0.82%
Five Talents Limited	621,000	0.73%
Mr Peter Joseph Falzon	620,000	0.73%
ASB Nominees	615,353	0.72%
Robert James Kenrick	580,500	0.68%
<b>Total</b>	<b>38,524,576</b>	<b>45.37%</b>

The Company is not currently undertaking an on-market buy-back.

## Company Secretary

Giuseppe Canala, BTECH, BA, FAICD

## Share Registry

Computershare Investor Services Limited  
Level 5, 115 Grenfell Street  
ADELAIDE South Australia 5000

GPO Box 1903  
ADELAIDE South Australia 5001

Enquiries within Australia: 1300 556 161  
Enquiries outside Australia: +61 3 9415 4000  
Website: [www.computershare.com](http://www.computershare.com)

# Corporate Directory

## Directors

**Victor Previn** BE (Executive Chairman)

**Alex Sundich** BEc, MComm, ACA, ASIA (Non-Executive Director)

**John Marshall** Professor (Non-Executive Director)

**Malcolm Plunkett** Executive Director

**Giuseppe Canala** BTECH, BA, FAICD (Non-Executive Director)

## Company Secretary

**Giuseppe Canala** BTECH, BA, FAICD

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## Legal Advisors

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[www.computershare.com](http://www.computershare.com)

## Website

[www.ellex.com](http://www.ellex.com)

## Stock Exchange

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

## ASX Code

ELX – Ordinary Shares



