

Annual Report

Year Ended 30 June 2014

Ellex Medical Lasers Limited
ACN 007 702 927



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Page	Contents
2	Corporate Governance Statement
8	Directors' Report
17	Auditor's Independence Declaration to the Directors of Ellex Medical Lasers Limited
18	Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2014
19	Consolidated Statement of Financial Position as at 30 June 2014
20	Consolidated Statement of Changes in Equity for the financial year ended 30 June 2014
21	Statement of Cash Flows for the financial year ended 30 June 2014
22	Notes to the Financial Statements
69	Directors' Declaration
70	Independent Audit Report to the Members of Ellex Medical Lasers Limited
73	Additional Stock Exchange Information as at 28th August 2014

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Recommendations and Principles with 2010 Amendments, 2nd Edition, 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. To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. These responsibilities include:

- Setting the strategy for the Group, including operational and financial objectives and ensuring that there are sufficient resources for this strategy to be achieved.
- Appointing and, where appropriate, removing the Chief Executive Officer ('CEO'), approving other key executive appointments and planning for executive succession.
- Overseeing and evaluating the performance of the CEO and the executive team through a formal performance appraisal process having regard to the Group's business strategies and objectives.
- Monitoring compliance with legal, regulatory and occupational health and safety requirements and standards.
- Overseeing the identification of key risks faced by the Group and the implementation of an appropriate internal control framework to ensure those risks are managed to an acceptable level.
- Approving the Group's budgets, including operational and capital budgets, and the approval of significant acquisitions, expenditures or divestitures.
- Approval of annual and half-yearly financial reports.
- Ensuring the market and shareholders are fully informed of material developments.

Board Process

To assist in the execution of its responsibilities, the Board has established an Audit & Risk 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 & risk and remuneration committees is also monitored. The Board also establishes other sub-committees from time to time to deal with issues of special importance. 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 eleven (11) scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Chief Executive Officer and Company Secretary. Standing items include the Chief Executive Officer's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

Composition of the Board

The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report on page 8 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 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.

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 the Director's Report on page 14.

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

The Company has a Share Trading Policy which governs the trading in the Company's shares and applies to all Directors and employees of the Company. A copy of this policy is available on www.ellex.com.

Directors, senior management and employees may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:

- For the period from 31 December until one day after release of the half-year result to the Australian Stock Exchange ("ASX"), and from 30 June until one day after 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 advise the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Company. Directors must advise the ASX of any transactions conducted by them in shares in the Company.

Independent Professional Advice and Access to Company Information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the consolidated group's expense. A copy of any advice received by the director is made available to all other members of the Board.

Insurance

The Group has in place a Directors and Officers liability insurance policy providing a specified level of cover for current and former Directors and executive Officers of the Group against liabilities incurred whilst acting in their respective capacity.

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 incentive performance packages and professional indemnity and liability insurance policies.

The members of the Remuneration Committee during the year were:

- Mr G Canala - Non-Executive Director (Chairman of Remuneration Committee)
- Mr V Previn - Executive Director
- Dr Meera Verma - Non-Executive Director

Given the size and structure of the Company's Board, the directors have formed the view that it is appropriate that a majority of the members of the remuneration committee not be independent directors. The Remuneration Committee abides by a formal charter.

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

Corporate Governance Statement

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 and superannuation are set out in the Directors' Report.

Audit & Risk Committee

The Audit & Risk 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 & Risk Committee during and since the end of the year were:

- Mr A Sundich – Non-Executive Director (Chairman of Audit & Risk Committee)
- Mr V Previn – Executive Director
- Mr Giuseppe Canala - Non-Executive Director

The external auditors, the Chief Executive Officer and the Group Financial Controller are invited to Audit & Risk Committee meetings at the discretion of the Committee. The Committee met three times during the year.

The external auditor met with the Audit & Risk Committee and the Board of Directors three times during the year.

The Audit & Risk 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.

The responsibilities of the Audit & Risk 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 company's 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 & Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

- To discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- Prior to announcement of results:
 - ◆ To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings
 - ◆ To recommend Board approval of these documents
- To finalise half-year and annual reporting:
 - ◆ Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made
 - ◆ Review the draft financial report and recommend Board approval of the financial report
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

Internal Control Framework

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has instigated the following internal control framework:

- Financial reporting – Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared as conditions reasonably require

- Continuous disclosure – A 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 website. 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 the Group Financial Controller ensure compliance with financial controls and procedures including information systems controls detailed in procedure manuals
- 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, 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 30 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 Group Financial Controller 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 Group Financial Controller 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.

Monthly actual results are reported against budget, for the Board to approve with detailed analysis of variances against budget.

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 and 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

Corporate Governance Statement

- 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.

Workplace Gender Equality Act

In April 2014 Ellex complied with the reporting requirements of the Workplace Gender Equality Act (WGEA) and submitted a report for the 2013-14 period.

Diversity

Recommendation 3.2 of the ASX Corporate Governance Council's "Corporate Government Principles and Recommendations" provides that companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. Ellex does not currently comply with this recommendation.

The Board has resolved that given the Company's size and the nature of its operations, it is not practicable to adopt and implement a formal policy that might constrain the Company's ability to recruit solely on the basis of merit.

The Company is the only publicly listed ophthalmic laser manufacturer in Australia, and one of only a dozen such manufacturers worldwide. Recruiting qualified and experienced staff is, and has been, a significant challenge during the Company's 30 year history. With an extremely limited pool of appropriate candidates for many roles throughout the organisation, the Company considers that it would be detrimental to shareholder interests to recruit on any basis other than merit.

As an international employer across four continents, the Company's consistent practice is to hire and promote the best available person for any given role, irrespective of gender, age, ethnicity or cultural background. The Company is an equal opportunity employer and this is reflected in the current diversity of its workforce.

As the Company grows and diversifies, the Board will continue to consider whether it is appropriate to implement a formal Diversity Policy.

Recommendation 3.3 of the Principles provides that companies should disclose in each annual report the measurable objectives of achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. As a result of the Board's decision not to adopt and implement a Diversity Policy at this time, Ellex does not currently comply with this recommendation. The Company re-iterates the matters set out above in respect of Recommendation 3.2.

Recommendation 3.4 of the Principles requires ASX listed entities to disclose in the Annual Report the proportion of women in the whole organisation, in senior executive positions and on the Board. Below is Ellex's current gender profile.

	Total	Production	Others	Middle Management	Senior Management	Board
All Staff	221	52	123	28	13	5
Female Staff	56	15	28	11	3	1
% of total	25%	29%	23%	39%	23%	20%

Portion of Female Employees of Ellex Medical Lasers Limited as at 30 June 2014.

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 website at www.ellex.com.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated 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. A copy of the Constitution is available on our website www.ellex.com.

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2014. 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

Victor Previn is 57 years old and was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor Previn is a professional engineer and one of the original founders of Ellex. His career spans more than 30 years in the laser industry. Mr. Previn was responsible for developing and commercializing the technology platform that is now the core of Ellex's current production. He has spent more than 27 years in the ophthalmic laser industry travelling widely throughout Asia, Europe and the USA in a business development capacity.

Mr. Previn held the position of Managing Director from 2003 to 2005. In July of 2005, Mr. Previn was elected Chairman of the Ellex board of directors. He is also a member of the Audit & Risk Committee and the Remuneration Committee.

Alex Sundich

Alex Sundich is 50 years old and was appointed a non-executive director on 22 July 2005. Alex is currently a director of Palladion Partners, a corporate advisory and principal investment firm. 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 and acquisitions and capital raisings. Alex is currently a non-executive director of Petrel Energy Limited. He is also Chairman of the Audit & Risk Committee and an Executive Director of Burlison Energy Limited.

Giuseppe Canala

Giuseppe Canala is 67 years old and was appointed 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 Manager and Managing Director. He was the Chairman from 1990 to 2001. He is currently a member of the Audit & Risk Committee and Remuneration Committee.

Rahmon Coupe

Rahmon Coupe is 51 years old and was appointed a Non-Executive Director on 15 May 2013. Mr Coupe is Chief Executive Officer and Director of YourAmigo Limited, an organic search engine solutions company. Mr. Coupe has more than 26 years experience in the areas of corporate management, intellectual property management, contract negotiation, business development and engineering and has worked across a diverse range of industries, including: information technology and the internet, life sciences and public broadcasting. Mr. Coupe has held various project and engineering management roles for government research-based organisations, including the Defence Science and Technology Organisation (DSTO).

Mr. Coupe holds an Honours Degree in Electrical and Electronic Engineering from the University of Adelaide and was awarded the Ernst & Young Entrepreneur Of The Year in Technology and Emerging Industries for the Central Region of Australia in 2009.

Meera Verma

Meera Verma is 55 years old and was appointed a Non-executive Director on 15 May 2013. Dr Verma is a professional executive with expertise spanning the global healthcare, product development and biotechnology delivery industries. She is the principal of Headland Vision, a strategic product development advisory and consultancy company, and previously served as Site Director for the Adelaide-based R&D and manufacturing facility of Hospira Incorporation, a global speciality pharmaceutical and medication company. Dr. Verma is a Fellow of both the Australian Academy of Technological Sciences and Engineering (ATSE) and the Australian Institute of Company Directors.

Dr. Verma holds a Doctoral Degree in Biochemistry from the University of Adelaide and is a Non-Executive Director of Biosensis Pty Ltd and (not-for-profit) Trees for Life. She is currently a member of the Remuneration Committee.

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

Company Secretary

Maria Maieli has over 25 years of senior financial management experience in public and private companies, specialising in international tax and reporting and corporate compliance and governance.

Ms. Maieli holds a Masters Degree in Professional Accounting from the Southern Cross University and is a Certified Practising Accountant (CPA).

Ms. Maieli joined Ellex in May 2011 as Financial Controller. She was appointed Company Secretary 1 January 2013.

Principal activities

During the year, the principal activities of entities within the Group were:

- Global leader in design and manufacture of lasers and ultrasound systems
- Distribution and service of medical devices to ophthalmologists to diagnose and treat eye disease
- Manufacture and distribution of canaloplasty mircocatheter.

There have been no significant changes in the nature of these activities during the year.

Review of operations

An operating profit before tax of \$1.3m was achieved for the year ended 30 June 2014. This is a material improvement on the operating profit of \$0.1m reported last year. Net cash from operations also lifted to \$2.7 million from \$1.9 million last year.

The improved operating performance is a direct result of improved sales, primarily in the USA. The devaluation of the Australian dollar against the Euro and the US dollar also provided a net benefit to the group. During the year US revenues more than doubled compared with 2013 associated with the launch of the glaucoma treatment laser portfolio in that market and the acquisition of the canaloplasty business from iScience Interventional Inc on 31 December 2013. These two events have also resulted in significant increase in US dollar denominated selling costs. Therefore when combined with production costs which are also denominated in US dollars, the impact on the bottom line of the lower A\$ was moderated.

In addition to US sales growth there was good growth in our Asian markets, particularly China and in Latin American markets. Sales into Asia totalled approximately \$3.8m in 2014.

Sales in Asia have increased by just over 50% over the last 3 years. In Latin America investments made with our distributor partners saw sales grow by just over 50%. In Europe and the Middle East the small growth in sales revenue was primarily attributable to the fall in the A\$ against the Euro. Having said that, the take up of new products (UQ Reflex for Laser Vitreolysis and 2RT for AMD treatment) during the year augurs well for the future. In Japan the devaluation of the YEN against the Australian dollar reduced sales revenue.

Reported gross profit (measured by revenue less raw materials) increased from 48% to 51.3%. Operating costs increased due to higher selling costs in the USA directly related to SLT sales, the incorporation of the canaloplasty business including higher marketing costs for its relaunch, legal costs associated with the Intellectual Property rights protection and our investment in clinical support for the roll out. Of the operating cost increase, approximately \$0.6 million was non-recurring.

Finally operating profit was reduced by \$0.4 million as a result of unrealised foreign exchange losses on inventory held in our Japan and USA subsidiaries at year end. This unrealised loss primarily represents the impact of the appreciation of the A\$ against the Yen and US\$ during the second half of fiscal year 2014. Since 30 June 2014, movements in exchange rates have meant that this loss has not become realised. During fiscal year 2013, the same line item was a gain of \$0.04m.

During the year two equity capital raisings were undertaken to fund our business growth initiatives; the first in late September 2013 was primarily used to fund working capital needs for SLT sales growth and the second in late December 2013 was primarily used to fund the acquisition of the canaloplasty business. A total, net of costs, of \$5.9 million was raised during the year.

Financial position

As at 30 June 2014, the net assets of the consolidated group increased by \$6.1 million from 30 June 2013 to \$36.9 million.

The Board's goal is to continue to foster improved operational and profit performance whilst investing in future growth of the Ellex business.

Environmental regulations

The group holds licences to operate the manufacturing processes required to produce its products. It is not subject to significant environmental regulation or reporting requirements. There have been no known significant breaches of the group's licence conditions.

Subsequent events

The litigation with Lightmed Corporation relating to infringement of Ellex Medical Lasers Ltd. SLT patent has been settled on 7th July 2014. Agreed settlement of USD \$80,000 for the entitled action has been paid on the 21st July 2014.

Significant changes in state of affairs

During the year, the following changes occurred within the Group:

- Acquisition of iScience Interventional Inc the canaloplasty business from 31st December 2013.
- Issue of Share Capital on 26th September and 30th December 2013, the Group issued a total of 22,736,552 shares which resulted in total proceeds of \$6,311,503. Each share was issued with the same terms and conditions as existing shares.

Future developments

The Company will continue to focus on the further development of its business being the development, manufacture, service and distribution of ophthalmic medical equipment for use in ophthalmic procedures worldwide and business related to these capabilities.

The market in which the business operates is very competitive. Therefore 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 prejudice the competitive position of 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 2014 (30 June 2013: Nil).

Share options

At the date of this report there are no shares under option.

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.

No persons have applied for leave of the court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings. No proceedings have been brought or intervened on behalf of the Group with leave of the court under Section 237 of the Corporations Act 2001.

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, eleven Board meetings, three Audit & Risk Committee meetings and two Remuneration Committee meetings were held.

Directors	Board of directors		Audit & Risk Committee		Remuneration committee	
	Held*	Attended	Held*	Attended	Held*	Attended
V Previn	11	10	3	3	2	2
A Sundich	11	10	3	3	N/A	N/A
G Canala	11	11	3	3	2	2
R Coupe	11	10	N/A	N/A	N/A	N/A
M Verma	11	10	N/A	N/A	2	2

Directors' shareholdings

The following table sets out each director's relevant interest in shares and rights or options in shares of the Company or a related body corporate as at the date of this report:

Directors	Interests of Directors		Interests of Director Related Entities	
	Fully Paid Ordinary Shares	Options	Fully Paid Ordinary Shares	Options
V Previn	9,316,031	-	9,316,031	-
A Sundich	6,300,000	-	6,300,000	-
G Canala	4,061,788	-	4,061,788	-
R Coupe	989,000	-	989,000	-
M Verma	-	-	-	-

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 2014 in accordance with the Corporations Act 2001 and the Corporations Regulations 2001. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and executive details
- remuneration policy for directors and executives
- 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
- Giuseppe Canala – Non-executive Director
- Rahmon Coupe - Non-executive Director
- Meera Verma - Non-executive Director

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

- Tom Spurling – Chief Executive Officer

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.

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. Non-executive directors' base fees are presently \$30,000 per annum.

The Chairman receives a base fee of \$30,000 plus \$10,000 per annum. Director's fees cover all main Board functions but exclude membership of the Audit & Risk Committee. A fee of \$5,000 per annum is payable for membership of the Audit & Risk Committee. 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.

Long-term incentives are linked to the improvement in the market value of the Company. The long term incentive is intended to reward efforts and results that promote long term growth in shareholder value.

The remuneration of key management personnel 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 13.

Profit targets are defined as either Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) or Earnings Before Tax (EBT) or Regional Contribution margin, depending on the role of the employee involved. 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.

The tables below set out summary information about the consolidated group's earnings and movements in shareholder wealth for the five years to June 2014.

	30 June 2014 \$'000	30 June 2013 \$'000	30 June 2012 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Revenue (i)	54,378	42,805	47,504	43,135	47,420
EBITDA	2,987	1,726	3,149	1,114	6,360
Net profit/(loss) before tax	1,311	140	1,067	(1,087)	3,563
Net profit/(loss) after tax	788	(816)	1,050	(700)	3,760

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

	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Share price at start of year	.200	0.115	0.180	0.150	0.130
Share price at end of year	.375	0.200	0.115	0.180	0.150
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	0.7 cps	(1.0) cps	1.2 cps	(0.8) cps	4.5 cps
Diluted earnings per share	0.7 cps	(1.0) cps	1.2 cps	(0.8) cps	4.5 cps

Key terms of employment contracts

Remuneration and other terms of employment of the Chief Executive Officer and senior executives are formalised in service agreements.

The payment of bonuses and other incentive payments are reviewed by the Remuneration Committee annually as part of the review of executive remuneration and a recommendation is put to the Board.

Tom Spurling – Chief Executive Officer

- Total remuneration package of \$314,374 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. The termination benefit may be reduced by any amounts due to the Company under the long-term incentive arrangement.
- A short-term incentive payable at time of annual review, incentive will be at the discretion of the Board and based on overall performance of previous financial year. Range of incentive is \$25,000 to \$50,000.
- A long-term incentive in the form of 147,500 shares for which an interest-free loan of \$48,850 was provided. The principle amount of this loan is only repayable from proceeds of the sale.

Remuneration of directors and executives

Elements of director and executive compensation

The remuneration structure that has been adopted by the Group consists of the following components:

- Fixed salary/fees
- Benefits – including the provision of motor vehicle, superannuation and health benefits

- c) Short term incentive (STI) – the performance measures are set annually after consultation with the directors and executives and are specifically tailored to the areas where each executive has a level of control.

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person's pre-agreed KPI's.

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 2014, 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 \$13,106
 - ♦ A Sundich \$10,193
 - ♦ G Canala \$10,193
 - ♦ M Verma \$7,500
 - ♦ R Coupe \$8,737

At 30 June 2013, 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 \$13,151
 - ♦ A Sundich \$10,229
 - ♦ G Canala \$10,229
 - ♦ M Verma \$4,384
 - ♦ R Coupe \$4,384

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 totalling \$10,591 thousand (2013: \$5,658 thousand) are receivable from subsidiaries.

Transactions between the Group and its related parties

During the financial year ended 30 June 2014, the following transactions occurred between the Group and its other related parties:

- Interest payments of \$157 thousand (2013: \$375 thousand) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 3.85% (2013: 3.85%). Interest is payable annually.
- Sales between the subsidiaries totalled \$20,897 thousand (2013: \$16,542 thousand) during the year. Payment terms are 60 days.
- Management fees were charged between subsidiaries of \$1,381 thousand (2013: \$1,380 thousand) during the year for management, accounting, marketing and communications support.

2014	Short-term employee benefits			Post employment benefits		Share-based payment	Other long-term benefits	Total
	Salary and fees	Bonus	Non-monetary benefits	Pension and super-annuation	Other			
	\$	\$	\$	\$	\$			
Directors								
V Previn	45,000	-	3,875	4,162	-	-	-	53,037
G Canala	15,000	-	-	23,237	-	-	-	38,237
A Sundich	35,000	-	-	3,237	-	-	-	38,237
R Coupe	26,250	-	-	2,428	-	-	-	28,678
M Verma	26,250	-	-	2,428	-	-	-	28,678
Executives								
T Spurling (i)	248,190	-	-	17,334	-	48,850	-	314,374
Total	395,690	-	3,875	52,826	-	48,850	-	501,241

2013	Short-term employee benefits			Post employment benefits		Share-based payment	Other long-term benefits	Total
	Salary and fees	Bonus	Non-monetary benefits	Pension and super-annuation	Other			
	\$	\$	\$	\$	\$			
Directors								
V Previn	45,000	-	6,756	4,050	-	-	-	55,806
G Canala	34,150	-	-	24,437	-	-	-	58,587
M Plunkett	180,859	-	-	23,667	-	-	-	204,526
A Sundich	35,000	-	-	3,150	-	-	-	38,150
R Coupe	-	-	-	-	-	-	-	-
M Verma	-	-	-	-	-	-	-	-
Executives								
T Spurling (i)	269,217	30,000	-	21,233	-	20,000	-	340,450
Total	564,226	30,000	6,756	76,537	-	20,000	-	697,519

Bonuses granted as compensation and additional comments – 2014 and 2013

(i) T Spurling

Interest-free loan to purchase shares, refer to section “Key terms of employment contracts”.

Directors' Report

Name	Fixed remuneration		Performance based remuneration				At risk	
			Bonus		LTI			
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
V Previn	100	100	-	-	-	-	-	-
G Canala	100	100	-	-	-	-	-	-
M Plunkett	100	100	-	-	-	-	-	-
A Sundich	100	100	-	-	-	-	-	-
R Coupe	100	100	-	-	-	-	-	-
M Verma	100	100	-	-	-	-	-	-
T Spurling	85	85	-	10	15	5	15	15

Value of options issued to directors and executives

No options were granted or exercised during the year ended 30 June 2014.

Proceedings on behalf of the Company

There are currently no pending proceedings on behalf of the Company.

Non-audit services

Details of amounts paid or payable to the auditor for all services provided during the year by the auditor are outlined in note 32 to the financial statements.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 is included on page 16 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, 28 August 2014

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ELLEX MEDICAL LASERS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Ellex Medical Lasers Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S.J. Gray
Partner – Audit & Assurance

Adelaide, 28 August 2014

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2014

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Revenue	2	54,378	42,804
Other income	4(a)	405	271
Changes in inventories of finished goods and work in progress		(273)	529
Raw materials and consumables used	4(b)	(26,457)	(22,284)
Employee benefits expense		(14,672)	(12,602)
Legal fees	4(b)	(332)	(94)
Depreciation and amortisation expense	4(b)	(1,424)	(1,309)
Advertising and marketing		(1,895)	(1,081)
Finance costs	3	(252)	(277)
Product development expenses		(702)	(548)
Unrealised FX (loss)/gain	4(b)	(426)	45
Realised FX l(loss)/gain	4(b)	(340)	368
Other expenses		(6,699)	(5,674)
Profit/(loss) from before income tax		1,311	140
Income tax (expense)/benefit	5	(523)	(956)
Profit/(loss) for the year		788	(816)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Exchange differences on translating foreign operations		(708)	(413)
Total comprehensive income/(loss) for the year		80	(1,229)
Profit/(Loss) attributable to:			
Members of the parent		788	(816)
Non-controlling interest		-	-
		788	(816)
Total comprehensive income attributable to:			
Members of the parent		80	(413)
Non-controlling interest		-	-
		80	(1,229)
Earnings per share:			
Basic earnings per share (cents)	22	.73	(1.0)
Diluted earnings per share (cents)	22	.73	(1.0)

Notes to the financial statements are included on pages 22 to 68.

Consolidated Statement of Financial Position as at 30 June 2014

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents	29	1,768	786
Trade and other receivables	7	11,805	10,242
Current inventories	8	14,172	13,587
Other current assets	9	1,412	1,347
Total current assets		29,157	25,962
Non-current assets			
Trade and other receivables	7	218	217
Non-current inventories	8	1,464	2,514
Property, plant and equipment	10	3,078	2,473
Capitalised development expenditure	12	9,682	8,266
Intangible assets	11	3,833	814
Deferred tax assets	5(b)	6,796	7,100
Total non-current assets		25,071	21,384
Total assets		54,228	47,346
Current liabilities			
Trade and other payables	14	5,889	6,482
Borrowings	15	5,137	6,369
Provisions	16	2,375	2,085
Deferred income	17	389	406
Current tax liabilities	5(b)	83	-
Total current liabilities		13,873	15,342
Non-current liabilities			
Trade and other payables	14	2,631	-
Borrowings	15	605	968
Deferred income	18	47	52
Provisions	16	122	155
Total non-current liabilities		3,405	1,175
Total liabilities		17,278	16,517
Net assets		36,950	30,829
Equity			
Issued capital	19	41,229	35,188
Reserves	20	(2,131)	(1,423)
Accumulated losses	21	(2,148)	(2,936)
		36,950	30,829
Parent entity interest		36,950	30,829
Non-controlling interest		-	-
Total equity		36,950	30,829

Notes to the financial statements are included on pages 22 to 68.

Consolidated Statement of Changes in Equity for the financial year ended 30 June 2014

	Issued Capital \$'000	Other Reserves \$'000	Foreign Currency Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Balance at 1 July 2012	35,188	142	(1,152)	(2,120)	32,058
Issue of share capital	-	-	-	-	-
Transaction costs	-	-	-	-	-
Total of transactions with owners	-	-	-	-	-
Profit/(loss) for the year	-	-	-	(816)	(816)
Other comprehensive income	-	-	(413)	-	(413)
Total comprehensive income	-	-	(413)	(816)	(1,229)
Balance at 30 June 2013	35,188	142	(1,565)	(2,936)	30,829
Balance at 1 July 2013	35,188	142	(1,565)	(2,936)	30,829
Issue of share capital	6,312	-	-	-	6,312
Transaction costs	(271)	-	-	-	(271)
Total of transactions with owners	6,041	-	-	-	6,041
Profit/(loss) for the year	-	-	-	788	788
Other comprehensive income	-	-	(708)	-	(708)
Total comprehensive income	-	-	(708)	(2,148)	36,950
Balance at 30 June 2014	41,229	142	(2,273)	(2,148)	36,950

Notes to the financial statements are included on pages 22 to 68.

Statement of Cash Flows for the financial year ended 30 June 2014

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers		54,222	41,911
Grant income received		156	-
Payments to suppliers and employees		(51,422)	(39,568)
Interest and other costs of finance paid		(252)	(277)
Income tax (payable)/refund		-	(122)
Net cash provided by/(used in) operating activities	29(c)	2,704	1,944
Cash flows from investing activities			
Interest received		9	1
Payment for acquisition of business		(1,693)	-
Payment for property, plant and equipment		(1,017)	(605)
Proceeds from sale of property, plant and equipment		1	13
Payment for intangible assets		(80)	(78)
Payments for capitalised development costs		(2,064)	(2,216)
Net cash used in investing activities		(4,844)	(2,885)
Cash flows from financing activities			
Proceeds from issues of share capital		5,929	
Proceeds from borrowings		364	-
Repayment of borrowings		(1,782)	(824)
Repayment of leases		(13)	(21)
Net cash provided by / (used in) financing activities		4,498	(845)
Net (decrease)/increase in cash and cash equivalents		2,358	(1,786)
Cash and cash equivalents at the beginning of the financial year		(513)	1,203
Effects of exchange rate changes on the balance of cash held in foreign currencies		(59)	70
Cash and cash equivalents at the end of the financial year	29(a)	1,786	(513)

Notes to the financial statements are included on pages 22 to 68.

Notes to the Financial Statements for the financial year ended 30 June 2014

Note	Contents
1.	Significant accounting policies
2.	Revenue
3.	Finance costs
4.	Profit/(loss) for year
5.	Income tax
6.	Share-based payments
7.	Trade and other receivables
8.	Inventories
9.	Other current assets
10.	Property, plant and equipment
11.	Intangible assets
12.	Capitalised development expenditure
13.	Assets pledged as security
14.	Current and non-current trade and other payables
15.	Borrowings
16.	Provisions
17.	Other current liabilities
18.	Other non-current liabilities
19.	Issued capital
20.	Reserves
21.	Accumulated losses
22.	Earnings per share
23.	Dividends
24.	Commitments for expenditure
25.	Leases
26.	Subsidiaries
27.	Segment information
28.	Related party disclosures
29.	Cash flow information
30.	Financial instruments
31.	Parent entity information
32.	Remuneration of auditors
33.	Acquisitions and disposals
34.	Subsequent events

1. Significant accounting policies

This financial report includes the consolidated financial statements and notes of Ellex Medical Lasers Limited and controlled entities "Consolidated Group".

Statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Ellex Medical Lasers Limited is the Group's Ultimate Parent Company. Ellex Medical Lasers Limited is a Public Company incorporated and domiciled in Australia. The address of its principal place of business is 82 Gilbert Street, Adelaide SA 5000.

The consolidated financial statements for the year ended 30 June 2014 (including comparatives) were approved and authorised by the board of directors on 27 August 2014.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. 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. Ellex Medical Lasers Limited is a for profit entity for the purpose of preparing financial statements.

New and amended standards adopted by the Group

AASB 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and AASB Interpretation 112 Consolidation - Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

- AASB 11 Joint Arrangements
- AASB 11 supersedes AASB 131 Interests in Joint Ventures (AAS 131) and AASB Interpretation 113 Jointly Controlled Entities- Non-Monetary-Contributions by Venturers. AASB 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, AASB 131's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. AASB 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The above has no impact on the Group.

- AASB 12 Disclosure of interests in Other Entities
- AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. The above had no impact of the Group.

Consequential amendments to AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures

- AASB 127 now only addresses separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128's equity accounting methodology remains unchanged.

1. Significant accounting policies continued

AASB 13 Fair Value Measurement

- AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances.
- AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The above has had no impact on the Group.

Amendments to AASB 119 Employee Benefits

The 2011 amendments to AASB 119 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- Eliminate the 'corridor method' and requires the recognition of re-measurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- Change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
- Enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

Under the amendments, employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under the superseded version of AASB 119) within 12 months after the end of the reporting period are short-term benefits, and are therefore not discounted when calculating leave liabilities. The Group expects all annual leave for employees to be used wholly within 12 months of the end of reporting period and therefore has not been discounted.

New standards and interpretations issued not yet effective

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

- Financial assets that are debt instruments will be classified based on:
 - The objective of the entity's business model for managing the financial assets; and

The characteristics of the contractual cash flows.

- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

The change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI); and

- The remaining change is presented in profit or loss.
- Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9;
 - classification and measurement of financial liabilities; and
 - derecognition requirements for financial assets and liabilities.
- AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.

1. Significant accounting policies continued

IFRS 15 Revenue from Contracts

- Replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related interpretations
- Establishes a new control-based revenue recognition model
- Changes the basis for deciding whether revenue is to be recognised over time or at a point in time.
- Provides new and more detailed guidance on specific topics (eg. multiple element arrangements, variable pricing, rights of return, warranties and licensing).
- Expands and improves disclosures about revenue.

In the Australian context, the Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian Standard (*AASB 15 Revenue from Contracts with Customers*), along with a new Exposure Draft (ED) on income from transactions of Not-for-Profit (NFP) entities by September 2014.

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.

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 capitalised development expenditure

Capitalised development expenditure is reviewed at least annually and tested for impairment. A policy outlining the basis for capitalisation and amortisation exists to aid management in determining whether the carrying value is appropriate. This is based on both historical and forecast data to test recoverability of the carrying value. The carrying value of \$9,682 thousand is made up of products currently being sold and expected to be sold within the period of amortisation identified at note 1(m).

Warranty provision

The warranty provision is based on a policy that determines the likelihood of warranty expenses being incurred in the future and the associated costs of warranty based on historical information. The carrying value of \$301 thousand is deemed to be appropriate and consistent with the warranty policy.

Accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements for the year ended 30 June 2013.

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

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expenses as incurred.

1. Significant accounting policies continued

(b) Business combinations continued

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

(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 statement of financial position.

(d) Derivative financial instruments

The consolidated group enters into derivative financial instruments from time to time to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 30 to the financial statements.

(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 employee 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.

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 30.

1. Significant accounting policies continued

(f) Financial assets continued

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 reporting 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.

(h) Foreign currency

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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting 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 reporting 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.

1. Significant accounting policies continued

(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 statement of cash flows 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) 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.

(k) 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.

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.

1. Significant accounting policies continued

(I) 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 liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. 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 future 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 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 statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Ellex Medical Lasers Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 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.

1. Significant accounting policies continued

(m) 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.

Intellectual Property

Intellectual property acquired as part of the acquisition during the year (see note 33) is recognised at fair value and is amortised straight line over ten years.

Research and development expense/capitalised 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.

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 – 10 years

(n) 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.

(o) Leases

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.

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.

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.

(p) 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 10 'Consolidated Financial Statements'. A list of subsidiaries appears in note 26 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

1. Significant accounting policies continued

(p) Principles of consolidation continued

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 non-controlling 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.

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

Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Ellex Medical Lasers Limited.

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(q) 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 – 20 years

(r) 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.

1. Significant accounting policies continued

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts.

Sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer to the buyer the significant risks and rewards of ownership of the goods.

Rendering of Services

The Group generates revenues from after-sale service and maintenance, and extended warranty contracts. Consideration received for those services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

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.

(t) Foreign currency translation

The consolidated financial statements are presented in Australian dollars (AUD), which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

(u) Segment reporting

Operating segments are considered components of an entity about which separate financial information is available that is evaluated by chief operating decision makers (CODM) in deciding how to allocate resource and in assessing performance.

The Group's segments used by the CODM are Distribution and Direct.

Each of these operating segments is managed separately as each of these sales lines require different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

(v) Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Ellex Medical Lasers Limited as treasury shares until the shares are cancelled or reissued.

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Ellex Medical Lasers Limited.

Dividends

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

1. Significant accounting policies continued

(v) Equity continued

- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(w) Parent entity financial information

The financial information for the parent entity, Ellex Medical Lasers Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements except for that outlined per note 31.

2. Revenue

	Consolidated Group	
	2014 \$'000	2013 \$'000
Revenue from continuing operations consisted of the following items:		
Revenue from the sale of goods	54,378	42,804
	54,378	42,804

3. Finance costs

	Consolidated Group	
	2014 \$'000	2013 \$'000
Interest on bank overdrafts and loans	238	261
Interest on obligations under finance leases	5	5
Other interest expense	9	11
Attributable to continuing operations	252	277

4. Profit/(loss) for year

Profit/(losses) for the year has been arrived at after crediting (charging) the following gains and losses from continuing operations:

(a) Other income

	Consolidated Group	
	2014 \$'000	2013 \$'000
(Loss)/gain on disposal of property, plant and equipment	(1)	(18)
Grants Income	150	13
Interest	9	1
Other income	247	275
	405	271

4. Profit/(loss) for year continued

(b) Other expenses

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

	Consolidated Group	
	2014 \$'000	2013 \$'000
Cost of goods sold	26,457	22,284
Net bad and doubtful debts arising from:		
Trade and other receivables	(33)	(2)
	(33)	(2)
Write-down of inventories to net realisable value	(141)	(64)
Write-off of obsolete stock	(95)	(475)
Total of movement in stock provision	(236)	(539)
Depreciation of property, plant and equipment	570	712
Amortisation of intangible assets	854	597
Depreciation and amortisation expense	1,424	1,309
Legal fees	332	94
Unrealised foreign exchange losses/(gains)	426	(45)
Realised foreign exchange losses/(gains)	340	(368)
Operating lease rental expenses:		
Minimum lease payments	3,047	2,449

5. Income tax

(a) Income tax recognised in profit or loss

	Consolidated Group	
	2014 \$'000	2013 \$'000
Tax expense comprises:		
Current tax expense	109	130
Deferred tax expense/(benefit)	414	826
Total tax expense	523	956

The prima facie income tax (benefit) on pre-tax accounting (loss)/profit from operations reconciles to the income tax (benefit) in the financial statements as follows:		
Profit from operations	1,311	140
Income tax expense/(benefit) calculated at 30%	393	42
Non-deductible expenses	170	8
Effect of higher tax rates of tax on overseas income (USA, Japan and Europe)	83	1,558
Other – Research and Development Tax Concession	322	(313)
Other	(103)	(57)
(Over)/under provision of income tax in previous year	(342)	(282)
Total income tax expense	523	956

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 in Australia when compared with the previous reporting period.

5. Income tax continued

(b) Deferred tax balances

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

2014	Consolidated Group			
	1/07/13	Charged to Income	Charged to Equity	30/06/14
Non-current Assets				
Temporary differences				
PPE	18	28	-	46
Intangibles	2,526	(244)	-	2,282
Capitalised Research and Development	(2,647)	(425)	-	(3,072)
Section 40-880 deductions	-	53	112	165
Provisions	502	40	-	542
Doubtful Debts	4	3	-	7
Other financial liabilities	-	-	-	-
Temporary difference on unrealised intercompany profits	572	165	-	737
Other	252	(42)	-	210
Current Liabilities				
Provisions	-	(83)	-	(83)
	1,227	(505)	112	834
Unused tax losses and credits				
Tax losses (Japan) (i)	905	68	-	973
Tax losses (USA)	502	58	-	560
Tax losses (Germany)	134	59	-	193
Tax losses (France)	26	111	-	137
Tax losses (Tax consolidated group)	2,161	(1,037)	-	1,124
Unused Research and Development tax offset	2,145	747	-	2,892
	5,873	6	-	5,879
	7,100	(499)	112	6,713

5. Income tax continued

(b) Deferred tax balances continued

2013	Consolidated Group			
	1/07/12	Charged to Income	ACA Stepdown	30/06/13
Temporary differences				
PPE	(2)	20	-	18
Intangibles	3,002	(476)	-	2,526
Capitalised Research and Development	(2,148)	(499)	-	(2,647)
Section 40-880 deductions	10	(10)	-	-
Provisions	479	23	-	502
Doubtful Debts	-	4	-	4
Other financial liabilities	3	(3)	-	-
Temporary difference on unrealised intercompany profits	583	(11)	-	572
Other	199	21	32	252
	2,124	(931)	32	1,227
Unused tax losses and credits				
Tax losses (Japan) (i)	2,317	(1,412)	-	905
Tax losses (USA)	51	451	-	502
Tax losses (Germany)	-	134	-	134
Tax losses (France)	-	26	-	26
Tax losses (Tax consolidated group)	3,400	(1,239)	-	2,161
Unused Research and Development tax offset	-	2,145	-	2,145
	5,768	105	-	5,873
	7,892	(826)	32	7,100

(i) According to Japanese-GAAP from the JICP Auditing Committee Report No 66 in determining the amount of deferred tax asset that can be realised, Japan carried forward losses from prior periods that had to be reversed in this financial year.

(c) 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 26.

5. Income tax continued

(c) Tax consolidation continued

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.

There were no options granted during the year (30 June 2013: Nil).

7. Trade and other receivables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Current		
Trade receivables(i)	11,754	10,134
Allowance for doubtful debts	(33)	(10)
	11,721	10,124
Other receivables	82	97
Goods and services tax (GST) recoverable	2	21
	11,805	10,242
Non Current		
Sundry recoverables	218	217
	218	217

- (i) The debtors balance that has been financed is \$2,920 thousand (2013: \$1,862 thousand). This relates specifically to receivables due from customers in Japan. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

7. Trade and other receivables continued

	Consolidated Group	
	2014 \$'000	2013 \$'000
Ageing of past due but not impaired		
60 – 90 days	1,473	870
90 – 120 days	1,539	341
Total	3,012	1,211
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	10	2
Amounts written off as uncollectible	33	10
Amounts reversed as previously over provided	(10)	(2)
Balance at the end of the year	33	10
Ageing of impaired trade receivables		
60 – 90 days	-	-
90 – 120 days	-	-
120+ days	33	10
Total	33	10

8. Inventories

	Consolidated Group	
	2014 \$'000	2013 \$'000
Current		
Raw materials – at cost	3,467	3,782
Raw materials – at net realisable value	77	38
Work in progress – at cost	792	919
Work in progress - at net realisable value	11	32
Finished goods – at cost	9,772	8,809
Finished goods – at net realisable value	53	7
	14,172	13,587
Non-Current		
Finished goods - at cost	1,464	2,514
	1,464	2,514

Notes to the Financial Statements

9. Other current assets

	Consolidated Group	
	2014 \$'000	2013 \$'000
Prepayments	1,412	1,347
	1,412	1,347

10. Property, plant and equipment

	Consolidated Group	
	Plant and equipment at cost \$'000	Total \$'000
Gross carrying amount		
Balance at 30 June 2012	8,425	8,425
Additions	605	605
Disposals	(81)	(81)
Net foreign currency exchange difference	466	466
Balance as at 30 June 2013	9,415	9,415
Additions	1,017	1,017
Disposals	(123)	(123)
Net foreign currency exchange difference	(252)	(252)
Balance at 30 June 2014	10,057	10,057
Accumulated depreciation/amortisation and impairment		
Balance at 30 June 2012	(6,074)	(6,074)
Depreciation	(712)	(712)
Disposals	35	35
Net foreign currency exchange differences	(191)	(191)
Balance at 30 June 2013	(6,942)	(6,942)
Depreciation	(570)	(570)
Disposals	55	55
Net foreign currency exchange differences	478	478
Balance at 30 June 2014	(6,979)	(6,979)
Net book value		
As at 30 June 2013	2,473	2,473
As at 30 June 2014	3,078	3,078

11. Intangible assets

	Intellectual Property	Patents & Trademarks	Consolidated Group
	\$'000	\$'000	Total \$;000
Gross carrying amount			
Balance at 30 June 2012	-	945	945
Additions	-	78	78
Balance at 30 June 2013	-	1,023	1,023
Additions	3,145	80	3,225
Balance at 30 June 2014	3,145	1,103	4,248
Accumulated amortisation and impairment			
Balance at 30 June 2012	-	(163)	(163)
Amortisation expense	-	(46)	(46)
Balance as at 30 June 2013	-	(209)	(209)
Amortisation expense	(157)	(49)	(206)
Balance as at 30 June 2014	(157)	(258)	(415)
Net book value			
As at 30 June 2013	-	814	814
As at 30 June 2014	2,988	845	3,833

12. Capitalised development expenditure

	Consolidated Group	
	Capitalised Development \$'000	
Gross carrying amount		
Balance at 30 June 2012		12,076
Additions		2,216
Balance at 30 June 2013		14,292
Additions		2,064
Balance at 30 June 2014		16,356
Accumulated amortisation and impairment		
Balance at 30 June 2012		(5,474)
Amortisation expense		(552)
Balance as at 30 June 2013		(6,026)
Amortisation expense		(648)
Balance as at 30 June 2014		(6,674)
Net book value		
As at 30 June 2013		8,266
As at 30 June 2014		9,682

13. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 15 to the financial statements, all non-current and current assets of the consolidated group (except capitalised development and deferred tax assets), have been pledged as security under banking agreements.

14. (a) Current trade and other payables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Trade payables	2,915	4,632
Accruals	1,300	871
Accrual for deferred consideration	514	-
Payable to directors	50	42
Other payables	1,110	937
	5,889	6,482

14. (b) Non-current trade and other payables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Accrual for deferred consideration	2,631	-

15. Borrowings

Secured – at amortised cost

	Consolidated Group	
	2014 \$'000	2013 \$'000
Current		
Bank overdrafts (note 29a)	-	1,299
Bank borrowings (i)	4,941	4,881
Finance lease liabilities (note 25a) (ii)	14	8
Other loans (unsecured)	182	181
	5,137	6,369
Non-Current		
Bank borrowings (iii)	584	960
Finance lease liabilities (note 25a) (ii)	21	8
	605	968

Summary of borrowing arrangements

- (i) The current borrowings include \$1,331 thousand (2013: \$2,179 thousand) of the commercial bill, \$2,920 thousand (2013: \$1,862 thousand) of YEN denominated debtor financing and export trade facility of \$363 thousand (2013: Nil). Both of these amounts are due to Westpac Banking Corporation and are secured by a fixed and floating charge over the Group's assets. The balance also includes \$327 thousand (2013: \$345 thousand) of YEN denominated bank debt due to Kansai Urban Bank in Japan.
- (ii) Secured by the assets leased. The borrowings are all at fixed interest rates with repayment periods not exceeding 5 years.
- (iii) The non current balance includes Nil of the commercial bill (2013: Nil) and \$584 thousand (2013: \$960 thousand) of YEN denominated bank debt due to Kansai Urban Bank in Japan.
- (iv) The borrowings from Westpac are classified as current because under the terms of the current agreement, the facility will expire within 12 months of 30 June 2014.

16. Provisions

	Consolidated Group	
	2014 \$'000	2013 \$'000
Current		
Employee benefits	2,074	1,795
Warranty (i)	301	290
	2,375	2,085
Non-Current		
Employee benefits	122	155
	122	155

	Consolidated Group	
	Warranty (i)	
Balance at 1 July 2012		271
Additional provisions recognised		346
Amounts used		(327)
Balance at 30 June 2013		290
Additional provisions recognised		420
Amounts used		(409)
Balance at 30 June 2014		301

- (i) 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 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.

17. Other current liabilities

	Consolidated Group	
	2014 \$'000	2013 \$'000
Deferred warranty income	389	406
	389	406

18. Other non-current liabilities

	Consolidated Group	
	2014 \$'000	2013 \$'000
Deferred warranty income	47	52
	47	52

19. Issued capital

	Consolidated Group	
	2014 \$'000	2013 \$'000
107,646,897 fully paid ordinary shares		
(2013: 84,910,345)	41,229	35,188
	41,229	35,188

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 2014		Company 2013	
	No. '000	\$'000	No. '000	\$'000
Fully paid ordinary shares				
Balance at beginning of financial year	84,910	35,188	84,910	35,188
Share issue	22,737	6,041	-	-
Balance at end of financial year	107,647	41,229	84,910	35,188

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

20. Reserves

	Consolidated Group	
	2014 \$'000	2013 \$'000
Foreign currency translation reserve		
Balance at beginning of financial year	(1,565)	(1,152)
Translation of foreign operations	(708)	(413)
Balance at end of financial year	(2,273)	(1,565)

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.

Other reserves

Balance at beginning of financial year	142	142
Transaction with non-controlling interest	-	-
Balance at end of financial year	142	142

Transactions with non-controlling interests

This reserve is issued to record the differences described in note 1 which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

21. Accumulated losses

	Consolidated Group	
	2014 \$'000	2013 \$'000
Balance at beginning of financial year	(2,936)	(2,120)
Net (loss)/profit attributable to members of the parent entity	788	(816)
Balance at end of financial year	(2,148)	(2,936)

22. Earnings per share

	Consolidated Group	
	2014 Cents per share	2013 Cents per share
Basic earnings per share:		
Total basic earnings per share	.73	(1.0)
Diluted earnings per share:		
Total diluted earnings per share	.73	(1.0)

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 Group	
	2014 \$'000	2013 \$'000
Net profit/(loss)	788	(816)

	Consolidated Group	
	2014 No.	2013 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	107,646,897	84,910,345

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 Group	
	2014 \$'000	2013 \$'000
Net profit/(loss)	788	(816)

22. Earnings per share continued

	Consolidated Group	
	2014 No.	2013 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	107,646,897	84,910,345
Shares deemed to be issued for no consideration in respect of:		
Employee options		-
Weighted average number of ordinary shares used in the calculation of diluted EPS (i)	107,646,897	84,910,345

- (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.

23. Dividends

	2014		2013	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Company	
	2014 \$'000	2013 \$'000
Adjusted franking account balance	3,797	3,680

24. Commitments for expenditure

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 25 to the financial statements.

25. Leases

(a) Finance leases

Leasing arrangements

Finance leases relate to motor vehicles and plant and equipment with lease terms of between 3 to 5 years.

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

25. Leases continued

(a) Finance leases continued

	Minimum future lease payments		Present value of minimum future lease payments	
	Consolidated Group		Consolidated Group	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Not longer than 1 year	14	10	13	10
Later than 1 year and not later than 5 years	21	9	19	8
Later than 5 years	-	-	-	-
Minimum future lease payments	35	19	32	18
Less future finance charges	(4)	(3)	(4)	(3)
Present value of minimum lease payments	31	16	28	15

Included in the financial statements as: (note 15)

Current borrowings	14	8	12	8
Non-current borrowings	21	8	16	7
	35	16	32	15

(b) Operating leases

Leasing arrangements

Operating leases relate to business premises with lease terms of between 2 to 5 years and property, plant and equipment with lease terms less than 5 years. The business premises leases will be reviewed at the end of the lease term.

	Consolidated Group	
	2014 \$'000	2013 \$'000
Non-cancellable operating lease payments		
Not longer than 1 year	1,479	1,195
Longer than 1 year and not longer than 5 years	1,568	1,254
	3,047	2,449

26. Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2014 %	2013 %
Parent Entity			
Ellex Medical Lasers Limited (i) (ii)	Australia		
Subsidiaries			
Ellex Medical Pty Ltd (i) (ii)	Australia	100	100
Laserex Medical Pty Ltd (ii)	Australia	100	100
Ellex Inc	USA	100	100
Ellex (Japan) Corporation	Japan	100	100
Ellex R&D Pty Ltd (i) (ii)	Australia	100	100
Ellex Australia Pty Ltd (i) (ii)	Australia	100	100
Ellex Services Europe SARL	France	100	100
Ellex France SARL	France	100	100
Innovative Imaging, Inc	USA	100	100
Ellex Deutschland GmbH	Germany	100	100
Ellex Machine Shop Pty Ltd (i) (ii)	Australia	100	100
Ellex iScience Inc	USA	100	-

(i) Ellex Medical Lasers Limited is the head of the Tax Consolidated Group which includes Ellex Medical Pty Ltd, Ellex Australia Pty Ltd, Ellex R&D Pty Ltd and Ellex Machine Shop Pty Ltd.

(ii) 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 from the year ended 30 June 2009.

26. Subsidiaries continued

The Statement of comprehensive income and Statement of financial position of the entities party to the deed of cross guarantee are:

	Consolidated Group	
	2014 \$'000	2013 \$'000
Statement of comprehensive income		
Revenue	42,402	37,282
Other income	745	455
Loss on sale of property, plant and equipment	(1)	(18)
Raw materials and consumables used	(24,972)	(22,178)
Employee benefits expense	(7,288)	(6,986)
Depreciation and amortisation expense	(1,206)	(1,047)
Legal fees	(322)	(88)
Advertising and marketing	(1,110)	(640)
Finance costs	(214)	(242)
Product development	(702)	(548)
Foreign currency translation movement	(324)	326
Other expenses	(3,601)	(3,899)
Profit/(Loss) before income tax	3,407	2,417
Income tax credit/(expense)	(876)	(144)
Profit/(Loss) for the year	2,531	2,273

	Consolidated Group	
	2014 \$'000	2013 \$'000
Statement of financial position		
Current assets		
Cash assets	890	321
Trade and other receivables	11,827	8,296
Inventories	9,138	9,255
Other	927	976
Total current assets	22,782	18,848

26. Subsidiaries continued

	Consolidated Group	
	2014 \$'000	2013 \$'000
Non-current assets		
Trade and other receivables	18,280	20,059
Property, plant and equipment	2,101	2,037
Deferred tax assets	4,159	4,909
Other intangible assets	3,796	814
Capitalised development expenditure	10,239	8,823
Total non-current assets	38,575	36,642
Total assets	61,357	55,490
Current liabilities		
Trade and other payables	6,367	7,269
Borrowings	4,830	5,949
Provisions	1,639	1,220
Other	-	-
Total current liabilities	12,836	14,438
Non-current liabilities		
Borrowings	-	8
Provisions	122	155
Other liabilities	-	-
Total non-current liabilities	122	163
Total liabilities	12,958	14,601
Net assets	48,399	40,889
Equity		
Issued capital	41,229	35,190
Reserves	(1,778)	(717)
Retained earnings	8,948	6,416
	48,399	40,889

27. Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of distribution channels since the diversification of the Group's operations inherently has notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Types of products and services by segment

Distributors

The Distributors segment sells ophthalmic medical equipment to independent third-party distributors globally. All revenues are aggregated as one reportable segment as the products are similar in nature, have the same types of customers and are subject to a similar regulatory environment. The distributor business is managed by a separate sales team and supported by the manufacturing site.

Direct

The Direct segment sells ophthalmic medical equipment to the end-user customer in various markets around the world. All revenues are aggregated, as one reportable segment as the products are similar in nature, have the same types of customer and are subject to a similar regulatory environment. The direct business is managed by the regional managers where a direct business is situated.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of intangibles;
- income tax expense;
- deferred tax assets and liabilities; and
- intangible assets.

27. Segment information continued

(a) Segment performance

	Distributors \$'000	Direct \$'000	Total \$'000
Year ended 30 June 2014			
Revenue			
External sales	15,444	38,934	54,378
Total segment revenue	15,444	38,934	54,378
Segment net profit before tax	4,323	5,464	9,787
Reconciliation of segment result to group net profit/(loss) before tax			
Amounts not included in segment result but reviewed by the Board:			
Depreciation and amortisation			(1,424)
Unallocated items:			
Corporate charges			(6,383)
Finance costs			(252)
Other income/(expense)			(417)
Net profit before tax from continuing operations			1,311
	Distributors \$'000	Direct \$'000	Total \$'000
Year ended 30 June 2013			
Revenue			
External sales	11,713	31,091	42,804
Interest revenue	1	-	1
Total segment revenue	11,714	31,091	42,805
Segment net profit before tax	3,130	3,313	6,443
Reconciliation of segment result to group net profit/(loss) before tax			
Amounts not included in segment result but reviewed by the Board:			
Depreciation and amortisation			(1,309)
Unallocated items:			
Corporate charges			(5,308)
Finance costs			(277)
Other income/(expense)			591
Net profit before tax from continuing operations			140

27. Segment information continued

(b) Segment assets

	Distributors \$'000	Direct \$'000	Total \$'000
30 June 2014			
Segment assets – opening	7,531	23,634	31,165
Segment asset charges for the period:			
Net reduction in inventories and receivables	7,528	(4,776)	2,752
Total segment assets	15,059	18,858	33,917
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			6,796
Capitalised development expenditure			9,682
Intangibles			3,833
Total group assets			54,228
	Distributors \$'000	Direct \$'000	Total \$'000
30 June 2013			
Segment assets – opening	9,449	20,198	29,647
Segment asset charges for the period:			
Net reduction in inventories and receivables	(1,918)	3,436	1,518
Total segment assets	7,531	23,634	31,165
Reconciliation of segment assets to group assets			
Inter-segment eliminations			
Unallocated assets:			
Deferred tax assets			7,100
Capitalised development expenditure			8,266
Intangibles			814
Total group assets			47,346

27. Segment information continued

(c) Segment liabilities

	Distributors \$'000	Direct \$'000	Total \$'000
30 June 2014			
Segment liabilities	13,293	3,985	17,278
30 June 2013			
Segment liabilities	12,067	4,450	16,517

(d) Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

	2014 \$'000	2013 \$'000
Australia	9,385	9,464
United States of America	19,026	8,511
Europe / Middle East	10,277	9,963
Japan	10,371	10,738
Asia	3,883	3,185
South America and other	1,436	943
Total revenue	54,378	42,804

(e) Assets by geographical region

The location of segment assets is disclosed below by geographical location of the assets:

	2014 \$'000	2013 \$'000
Australia	38,705	30,758
United States of America	5,904	5,699
Europe	1,790	1,552
Japan	7,829	9,337
Asia	-	-
Other	-	-
Total assets	54,228	47,346

(f) Major customers

The Group has a number of customers to which it provides both products and services. The Group supplies one single external customer in the Direct segment which accounts for 7.4% of external revenue (2013: 14.21%). The Group supplies one single external customer in the distributor segment which accounts for 7.3% of external revenue (2013: 10.02%).

28. 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 26 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

Refer to Remuneration Report contained in the Directors' Report for the details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014.

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

	Consolidated Group	
	2014 \$'000	2013 \$'000
Short-term employee benefits (i)	448,415	620,982
Post-employment benefits	52,826	76,537
	501,241	697,519

- (i) During the year the CEO was advanced an interest-free non-recourse loan of \$48,850 for the purchase of 147,500 Ellex shares.

29. Cash flow information

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, 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 statement of cash flow is reconciled to the related items in the statement of financial position:

	Consolidated Group	
	2014 \$'000	2013 \$'000
Cash and cash equivalents	1,768	786
Bank overdraft (note 15)	-	(1,299)
	1,768	(513)

(b) Financing facilities

New facilities have been varied to existing agreements classifying debt from current to non-current

	Consolidated Group	
	2014 \$'000	2013 \$'000
Flexible Options Finance (overdraft facility)		
• amount used (note 15)	-	1,299
• amount (exceeded)/unused	1,500	(49)
	1,500	1,250
Equipment finance and finance advance (insurance premium)		
• amount used (note 15)	182	181
• amount unused	-	-
	182	181
Other facilities		
• amount used (note 15)	363	-
• amount unused	187	500
	550	500
Commercial Bill line		
• amount used (note 15)	1,331	2,719
• amount unused	-	-
	1,331	2,719

29. Cash flow information continued

(b) Financing facilities continued

	Consolidated Group	
	2014 Million JPY	2013 Million JPY
Debtor finance (Japan)		
• amount used (i)	278	169
• amount unused	72	181
	350	350

(i) At the reporting dates, these amounts outstanding totalled \$2,920 thousand (2013: \$1,862 thousand). The total debtors facility can only be drawn down against eligible debtors in accordance with the agreement.

(c) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

	Consolidated Group	
	2014 \$'000	2013 \$'000
Profit/(Loss) for the year	788	(816)
Depreciation and amortisation of non-current assets	1,424	1,309
Loss/(Profit) on disposal of property, plant and equipment	1	17
Interest income received and receivable	9	1
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
• Current receivables	(1,563)	(893)
• Decrease/(increase) in tax balances	433	800
• Current and non-current inventories	465	(1,231)
• Other assets	(65)	(374)
• Current payables	2,038	4,149
• Other current and non-current liabilities	(826)	(1,018)
Net cash from operating activities	2,704	1,944

30. Financial instruments

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, commercial bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Financial assets			
Cash and cash equivalents	29(a)	1,768	786
Receivables	7	12,023	10,242
Total financial assets		13,791	11,028
Financial liabilities			
Trade and other payables	14	8,520	6,482
Borrowings	15	5,742	7,337
Total financial liabilities		14,262	13,819

(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 2013.

The capital structure of the consolidated group consists of debt, which includes the borrowings disclosed in note 15, 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 19, 20 and 21 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 manage debt and equity centrally, using capital market issues and borrowing facilities to meet anticipated funding requirements.

Gearing ratio

The Audit & Risk Committee reviews the capital structure on a semi-annual basis. The consolidated group monitors the gearing ratio to determine the proportion of net debt to equity. 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.

30. Financial instruments continued

(a) Capital risk management continued

The gearing ratio at year end was as follows:

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Financial assets			
Debt (i)		5,742	7,337
Cash and cash equivalents	29(a)	(1,786)	(786)
Net debt		3,956	6,551
Equity (ii)			
Equity (ii)		36,950	30,829
Net debt to equity ratio		10.70%	21.25%

(i) Debt is defined as long- and short-term borrowings, as detailed in note 15.

(ii) Equity includes all capital and reserves.

Externally imposed capital requirements

The following financial covenants apply at all times to the group and are tested with respect to the twelve month period prior to the test date:

- Fixed charge cover ratio $\geq 2.00x$;
- Gearing ratio $\leq 2.5x$;
- Minimum Tangible Net Worth \geq the great of \$20m or 85% of prior Financial Year end Tangible Net Worth;
- Capitalised Research and Development Expense $\leq 5.0\%$ of Sales Revenue.

(b) Financial risk management objectives

The requirements are monitored on a continual basis and form part of the regular management and Board reporting.

The Audit & Risk Committee Group reviews the treasury function of the consolidated group to provide services to the business, coordinate access to domestic and international financial markets, and manage 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 & Risk 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 2010, the Board of Directors minuted that all future foreign currency hedging is to be approved by the Board before proceeding.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Categories of financial instruments

The categories of financial instruments are identified in the Statement of Financial Position and notes thereto.

30. Financial instruments continued

(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 2014 or 2013.

(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. From time to time, the consolidated group enters into 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.

The board of directors approves foreign currency risk management procedures that are applied.

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

- Price lists
- Inventory holdings in off-shore warehouses

The consolidated group issues some price lists for its products in foreign currency, generally set in terms of its annual budgeted exchange rate.

- 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 of 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 as much certainty as possible.

Policy and 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, if considered practical, to 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.
- Non-AUD cashflows are monitored for any surplus funds or shortfalls.

30. Financial instruments continued

(f) Foreign currency risk management continued

Interim 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	
	2014 '000	2013 '000	2014 '000	2013 '000
US dollars	211	76	3,783	2,190
Japanese Yen	1,449	3,018	4,507	4,313
Euro	158	164	1,134	745

Foreign currency sensitivity analysis

The consolidated group is mainly exposed to USA dollars, Euro 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 within a reasonable period of time. 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.

	Euro Impact Consolidated		USD Impact Consolidated		Japanese Yen Impact Consolidated	
	2014 '000	2013 '000	2014 '000	2013 '000	2014 '000	2013 '000
Profit or loss	88	53	324	192	277	117

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

(g) Interest rate risk management

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 (2013: 100 basis points) higher or lower and all other variables were held constant, the consolidated group's:

- Net profit after tax would increase by \$13 thousand and decrease by \$13 thousand (2013: increase by \$25 thousand and decrease by \$25 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.

30. Financial instruments continued

(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 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.

(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 29(b) is a listing of undrawn facilities that the 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.

30. Financial instruments continued

(k) Maturity profile of financial instruments continued

2014	Average interest rate	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		
Financial Liabilities							
Overdraft	-	-	-	-	-	-	-
Commercial Bills	3.3%	-	187	1,144	-	-	1,331
Finance Lease	5.8%	1	2	11	20	-	34
Finance Advance	3.3%	23	69	90	-	-	182
Trade payables	-	2,280	635	-	-	-	2,915
Other payables	-	-	2,212	514	1,903	727	5,356
Payable to directors	-	-	50	-	-	-	50
Kansai Loan	1.7%	28	55	243	584	-	910
Debtor Finance Facility	2.1%	1,097	1,823	-	-	-	2,920
		3,429	5,033	2,002	2,507	727	13,698

2013	Average interest rate	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		
Financial Liabilities							
Overdraft	3.9%	1,299	-	-	-	-	1,299
Commercial Bills	3.3%	-	50	282	1,875	468	2,675
Finance Lease	5.8%	1	2	5	8	-	16
Finance Advance	3.4%	21	42	118	-	-	181
Trade payables	-	2,138	2,494	-	-	-	4,632
Other payables	-	-	1,808	-	-	-	1,808
Payable to directors	-	42	-	-	-	-	42
Kansai Loan	1.7%	29	57	258	960	-	1,304
Debtor Finance Facility	2.1%	668	764	430	-	-	1,862
		4,198	5,217	1,093	2,843	468	13,819

31. Parent entity information

	Parent Entity	
	2014 \$'000	2013 \$'000
Statement of financial position		
Total current assets	338	35
Total non-current assets	28,812	31,269
Total assets	29,150	31,304
Total current liabilities	162	338
Total non-current liabilities	(10,591)	(3,969)
Total liabilities	(10,429)	(3,631)
Share capital	41,231	35,190
Accumulated gain/(loss)	(1,652)	(255)
Total Equity	39,579	34,935
Statement of comprehensive income		
(Loss)/profit for the year	(1,397)	(351)
Total comprehensive income	(1,397)	(351)

Except for those noted below, our accounting policies for the Ellex entity are consistent with those for the Ellex Group:

- Under tax funding arrangements, amounts receivable (or payable) recognised by the Ellex Group for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non-current assets above, are recorded at cost less impairment of the investment value. Refer to note 26 for details on our investments in controlled entities.

(a) Property, plant and equipment commitments

There are no contractual commitments for the acquisition of property, plant or equipment as at 30 June 2014 (2013: Nil).

(b) Contingent liabilities and guarantees

There are no contingent liabilities as at 30 June 2014 (2013: Nil).

(c) Indemnities, performance guarantees and financial support

The parent entity has provided the following indemnities, performance guarantees and financial support, through the Ellex entity as follows:

- Security over overseas subsidiaries assets to support facilities by Westpac to the value of \$19,224 thousand (2013: \$19,224 thousand).

32. Remuneration of auditors

	Consolidated Group	
	2014 \$	2013 \$
Auditor of the parent entity		
Audit or review of the financial report		
• Grant Thornton	105,000	102,000
	105,000	102,000

The auditor of Ellex Medical Lasers Limited is Grant Thornton Audit Pty Ltd (2013: Grant Thornton Audit Pty Ltd).

There were no non-audit services provided in 2014, (2013 non-audit services were performed with respect to an application to a third party for a grant).

33. Acquisitions and disposals

Acquisition of iScience Interventional Inc.

On 31st December 2013, the Group acquired 100% of the canaloplasty business of US based iScience Interventional Inc., which comprises of the world-leading iTRACK™ 250 catheter and suture device. The acquisition was made to enhance the Group's position in revenue from consumable ophthalmic products and to broaden its glaucoma treatment offering.

The details of the business combination are as follows:

	Consolidated Group
	2014 \$'000
Fair value of consideration transferred	
Amount settled in cash	1,590
Fair value of contingent consideration	3,145
Total	4,735
Recognised amounts of identifiable net assets	
Property, plant and equipment	584
Intellectual Property	3,145
Total Non-Current Assets	3,729
Inventories	484
Trade and other receivables	522
Total Current Assets	1,006
Identifiable Net Assets	4,735
Consideration transferred settled in cash	1,590
Net cash outflow on acquisition	1,590
Acquisition costs charged to expenses	103
Net cash paid relating to the acquisition	1,693

33. Acquisitions and disposals continued

The acquisition of the Canaloplasty business of iScience Interventional Inc. was settled for cash consideration of \$1,590 thousand. The purchase agreement includes contingent consideration based on a percentage of future sales. The contingency consideration will be paid over the next ten years until 2023. The fair value of this contingent consideration has been estimated at \$3,145 thousand based on the present value of the estimated future cash outflows from the canaloplasty business.

Acquisition related costs of \$103 thousand are not included as part of the consideration and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

The Intellectual property acquired as part of the acquisition is being amortised straight line over 10 years.

34. Subsequent events

In August 2013 Lightmed Corporation made a claim against the Group relating to alleged misleading statements by the Group to distributors of Lightmed products in the USA regarding the Group's SLT patent rights. This claim was brought in the United States District Court for the northern district of California. This claim was defended by the Group on 7 July 2014. The claim was settled with the payment by the Group of US\$80,000.

Directors' Declaration

1. In the opinion of the Directors of Ellex Medical Lasers Limited:
 - (a) The consolidated financial statements and notes of Ellex Medical Lasers Limited are in accordance with the *Corporations Act 2001*, including
 - i Giving a true and fair view of its financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
 - ii Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) There are reasonable grounds to believe that Ellex Medical Lasers Limited will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2014.
3. Note 1 confirms that the consolidated financial statements also comply with the International Financial Reporting Standards.
4. At the date of this declaration, the Group 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, these are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 26 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:

On behalf of the Directors



Victor Previn
Chairman
Adelaide, 28 August 2014

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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 (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information 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.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply 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. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Grant Thornton Audit Pty Ltd ACN 130 913 594
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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 Company's preparation of the financial report that gives a true and fair view 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 Company'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.

Independence

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 consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. 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 on the remuneration report

In our opinion, the remuneration report of Ellex Medical Lasers Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in blue ink, appearing to read "S J Gray".

S J Gray
Partner – Audit & Assurance

Adelaide, 28 August 2014

Number of holders of equity securities

Ordinary share capital

- 107,646,897 fully paid ordinary shares are held by 3,045 individual shareholders.

All issued shares carry one vote per share.

Distribution of holders of equity securities

Range	Total Holders
1 - 1,000	1,161
1,001 - 5,000	612
5,001 - 10,000	383
10,001 - 100,000	756
100,001 and over	128
	3,040
Holding less than a marketable parcel	1,251

Substantial shareholders

Ordinary shareholders	Fully Paid	
	Number	Percentage
National Nominees Limited	13,443,583	12.49%
Sedico Pty Ltd	9,316,031	8.65%
Pine Street Pty Ltd (i)	6,300,000	5.85%

(i) Securities are registered in the names of Pine Street Pty Ltd <Pine Street Superannuation Fund> and Pine Street Pty Ltd

Additional Stock Exchange Information as at 22 September 2014

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully Paid	
	Number	Percentage
National Nominees Limited	13,443,583	12.49%
Sedico Pty Ltd	9,316,031	8.65%
Citicorp Nominees Pty Limited	4,050,235	3.76%
Ruminator Pty Ltd	3,738,680	3.47%
Mr Giuseppe Canala + Mrs Mira Canala <Giuseppe Canala S/F A/C>	3,621,928	3.36%
Pine Street Pty Ltd <Pine Street A/C>	3,600,000	3.34%
Pine Street Pty Ltd <Pine Street Super Fund A/C>	2,700,000	2.51%
JP Morgan Nominees Australia Limited <Cash Income A/C>	1,791,429	1.66%
Ms Choi Chu Lee	1,125,000	1.05%
Unley Underwriters Pty Limited	1,107,424	1.03%
Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan <Buchanan Super Fund A/C>	1,025,000	0.95%
Mr Robert James Kenrick	1,001,835	0.93%
Mr Rahmon Charles Coupe + Mrs Julia Deborah Coupe <Super Fund>	989,000	0.92%
Five Talents Limited	963,607	0.90%
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	870,756	0.81%
National Nominees Limited <DB A/C>	859,866	0.80%
Atkone Pty Ltd	833,333	0.77%
Mr Stephen Luke Pronk + Mrs Joanne Dawn Pronk <Analytical Instru Super A/C>	815,594	0.76%
Mr Roger Leslie Thompson	804,750	0.75%
Mr Yukitaka Isoda	690,000	0.64%
	53,293,490	49.51%

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

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Corporate Directory

Directors

Victor Previn B Eng
(Executive Chairman)

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

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

Rahmon Coupe B Eng (Hons)
(Non-Executive Director)

Meera Verma PhD, FTSE, FAICD
(Non-Executive Director)

Company Secretary

Maria Maieli CPA, MPACC

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www.ellex.com

Stock Exchange

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

ASX Code

ELX - Ordinary Shares



ellex.com

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