nanosonics

Annual Report 09

Contents

2 Company overview

Nanosonics is an Australian publicly listed company located in Sydney. The Company owns intellectual property relating to unique disinfection and sterilisation technologies which have application in a variety of markets including the healthcare industry, food processing, room and space decontamination and manufacturing.

The Company is focussed on commercialisation of its disinfection and sterilisation solutions which uniquely meet the requirements of a variety of rapidly growing markets. A key feature of the Company's products is the generation of dual revenue streams from devices and recurring revenue from the consumables.

Nanosonics' commercial objectives are to;

- Assert global leadership in low temperature disinfection and sterilisation which will drive both profit generation and shareholder value.
- Supply unique environmentally friendly solutions driving global leadership
- Leverage the Company's broad intellectual property to create and long-term product pipeline

Competitive advantage

Nanosonics' disinfection and sterilisation platform technology, NanoNebulant®, provides unique safe, non-toxic, fast and environmentally friendly solutions that are able to kill the most resilient microorganisms. This technology has the potential to establish new disinfection guidelines. Nanosonics introduces two new levels of disinfection and sterilisation based on the Company's platform technologies:

- High Level Disinfection Plus (HLD+) includes sporicidal efficacy
- Sterilisation Plus (S+) includes prionicidal efficacy

Nanosonics' technology

The foundation of Nanosonics' new standards in decontamination is its unique platform technology: the NanoNebulant technology. Nanosonics is ideally positioned in the rapidly evolving point of care and in-situ market which is likely to continue growing at double digit rates well into the future. This technology involves the production of a proprietary ultrafine mist at ambient temperatures that generates a concentrated and highly effective biocide. The NanoNebulant can be quickly and evenly distributed in an area and applied to a number of instruments or surfaces requiring High-Level Disinfection+. At the end of the process, Nanosonics' patented destructor breaks down the NanoNebulant uniquely leaving oxygen and water as the only by-products.

Nanosonics platform technology has many microbiological and environmental advantages which makes it transferable and scalable to a variety of products to address decontamination issues in markets such as healthcare, food processing, room and space decontamination.

Nanosonics first turned its attention to addressing the needs of distinct healthcare markets due to the significant infection control challenges currently facing clinical professionals. The Company recognised that the NanoNebulant technology has the ability to kill bacterial spores which represented a significant opportunity in infection control, particularly in healthcare environments.

Ultrasound market

The first market that the Company identified as an attractive opportunity was to revolutionise the processes for disinfection of ultrasound probes. The Company has developed the first commercial automated ultrasound disinfector at the point of care. The Company worked closely with industry experts and end users from a variety of medical specialisations to understand the features of its core technologies that would be engineered into an ultrasound transducer disinfector.

The Trophon EPR: Commercialisation of Nanosonics' first product

The resulting product, Trophon EPR is an automated device specifically designed for the disinfection of ultrasound probes at the point of care. The customer demands included;

- No exposure to toxic chemicals;
- Faster processing times;

- Validation that each transducer has been disinfected to a high level (HLD+);
- Easy and safe integration directly into examination rooms; and
- Enhanced materials compatibility

The Trophon EPR fulfils the functional and efficacy requirements of end users for a variety of healthcare specialties.

Initial customer feedback and acceptance of the Trophon EPR has been exceedingly positive with significant feedback relating to the ease of use, increased patient safety and the ability to remove toxic chemicals from the workspace.

Future product development

Future investment will be driven by opportunities that have a global application so that the Company builds on its mission to become a global leader in markets in which it operates.

Milestones FY2009
Manufacturing facility commences production
Appointment of extensive distribution network in Europe
TGA approval in Australia
Devices installed in public and private hospitals in Australia
510 (k) application to USA FDA
Initial shipments in public and private hospitals in Europe
First re-orders received for Trophon EPR

Objectives and major goals for FY2010
Roll-out of the Trophon EPR in Europe
FDA approval
Finalisation of appointment of distributors in the USA
Opening of distribution channels in selected Asian countries
Commercialisation of the TEE[1] probe disinfector
Development of new product pipeline

1 Transoesophageal Echocardiagram, a type of probe. This and other terms are explained in the Glossary on page 81.

What is Infection control?

Infection control is the practice of preventing the spread of infection within healthcare settings and beyond. This means preventing the transmission of pathogenic microorganisms from:

- Patient to patient
- Patients to healthcare workers
- Healthcare workers to patients

Part of an effective infection control program is the sterilisation and disinfection of reusable medical devices.

What is the difference between disinfection and sterilisation?

Sterilisation is a process that effectively kills transmissible agents such as bacteria, viruses and spore forms. Common sterilisation does not remove prions. Sterilisation can be achieved through heat, chemicals, irradiation, high pressure or filtration.

High-level Disinfection process destroy vegetative bacteria, mycobacteria, fungi and viruses but not high levels of bacterial spores within the recommended contact time.

What is the difference between sporicidal and prionicidal efficacy?

Sporicidal efficacy means that the NanoNebulant process destroys the most resilient micro-organisms and viruses. High Level Disinfection+ destroys all micro-organisms and viruses including high levels of bacterial spores within the recommended contact time.

Prions are proteins that are infectious and that cause cellular damage such as Creutzfeldt-Jacob disease, also known as the “mad cow” disease. Prionicidal efficacy means that the process is able to eliminate significant copies of human prions, which are the most resistant.

Chairman's Letter

It is with great pleasure that I present the Annual Report for Financial Year 2009.

Nanosonics has undergone a significant transition during the year, culminating with the commercial release of Trophon EPR into the ultrasound markets in Australia, New Zealand and a controlled roll out into Europe. Initial feedback from our customers is very pleasing, with the product exceeding expectations from a customer acceptance and benefit perspective.

The healthcare markets which Nanosonics is initially targeting continue to grow rapidly and evolve in their needs. These changes are being driven by the ever increasing challenges that microbial evolution and drug resistance are bringing to healthcare. The most recent of these being increased awareness and reporting requirements for highly drug resistant micro-organisms such as MRSA and *Clostridium difficile* infections in many European countries. This is resulting in infection control practitioners driving standardisation and measurability of processes to ensure the highest possible level of disinfection and sterilisation. These developments have enabled our distribution partners to position the Trophon EPR as a reliable process providing quality assurance to the end user. Other changes include major concerns with current toxic chemicals being utilised in the healthcare setting today which are progressively being banned from major international markets. These contribute to make the Trophon EPR the product of choice.

The Company focus for FY2010 is to capitalise on the growth generated by the Trophon EPR, initially into ANZ and Europe, and, later in the year to the USA (pending FDA approval). Feedback through our distribution network continues to confirm that there is a demand and immediate need for such a breakthrough product. The Company will continue to expand distribution networks into the Middle East and Asia during FY2010 as it seeks to maximise the opportunity from its first mover advantage with this fully automated solution.

New product development remains a constant focus for Nanosonics, with the team achieving a number of major breakthroughs which will drive growth for the Company well into the future. Research and development programs continue in the food market, as well as in room and hard surface decontamination. Commercial discussions continue with several major international and local corporations as well as significant large scale potential customers.

Over the period of the last 12 months, the world has been impacted by not only a financial crisis but more importantly one of confidence. Australia has demonstrated that it has maintained its relative strength and indeed done better than many global economies. Nanosonics emerges in a strong position, and is well resourced and in fact continues to invest in innovation in a time many other competitors have cutback. This will ideally position Nanosonics to capitalise on the escalating demand for infection prevention solutions as a consequence of the increasing biological challenges faced in all key industry sectors.

The sustained demand for healthcare consumption makes this sector a stand out opportunity for the future.

I would like to thank the entire Nanosonics team for the extraordinary efforts in achieving the Company's ambitious milestones. I would also like to thank the Board of Directors for their contributions during FY2009. In particular I welcome David Slack to the Board of Nanosonics. David brings extensive experience in driving rapid growth in complex businesses, and his insightful inputs have already been much appreciated. I would also like to recognise William Widin for his counsel and valuable contribution to Nanosonics during his tenure as a Director. William resigned from the Board in February 2009 in order to devote more time to his other interests, and we wish him well.

In closing, the Company is strongly positioned as an emerging leader in the rapidly growing point of care market together with an unparalleled portfolio of opportunities across many industrial sectors. Your company maintains a commitment to grow shareholder value through a focus on innovative delivery of enhanced healthcare outcomes all within the context of environmentally friendly technologies.

Maurie Stang
Non-Executive Chairman

Sydney
19 August 2009

Trophon EPR

"The Trophon greatly improves our workflow".
David Singe, Radiographer

Nanosonics' first Customer

The Trophon EPR was recently installed in the Maryborough District Health Service in regional Victoria. The product has been favourably received by the Radiology Department. Particularly impressed is Mr David Singe, Radiographer at the hospital.

Mr Singe was especially enthusiastic about the fact that he would not have to introduce any toxic chemicals like glutaraldehydes into his department.

"When I heard about the Trophon EPR, I contacted Nanosonics immediately. A Nanosonics representative visited our hospital to demonstrate the Trophon EPR. For me it was the ideal way to disinfect a probe. Our Infection Control Department waited to purchase a new disinfection system until the Trophon EPR became available".

The Trophon EPR has significantly aided the workflow of the ultrasound department. The product has been installed directly at the point of care and is accompanying the ultrasound machine in the examination room. Mr Singe explained that this is a significant benefit due to the time it saves in comparison to other systems available. These systems would require a separate room for disinfection and increase the time per patient by 15 to 20 minutes.

"With the Trophon EPR we only have to wash the probe with soap and water, dry the probe and put it in the device which is located in the examination room. In the meanwhile we can start with the next patient. When we are ready to start the next procedure, the probe is high level disinfected and immediately ready for use".

Mr Singe points out that another major benefit of the Trophon EPR is that it is able to disinfect most ultrasound probes. Mr Singe informed us that due to the introduction of the Trophon EPR all probes are able to be disinfected and this has been a benefit with small parts, surface probes that are often used in assessing skin infections.

"We have got into a routine now that all probes are being disinfected in the Trophon EPR. Most different probes fit in the Trophon which is a nice benefit. Previously it was especially difficult to disinfect the smaller probes".

Mr Singe is also very positive about the ease of use of the Trophon EPR. *"The device tells you exactly what to do. It is straightforward and beeps when it is finished. The device gives you notice that the disinfection has been successful which makes us confident that the probes have been disinfected properly after each cycle. The Trophon EPR is not only the best method of disinfection but also the easiest".*

Global Market Opportunity

Number of ultrasound procedures annually in different markets and segments

Country / Region	Radiology intracavity	O&G intracavity	Other targeted	Total targeted market	Total available market
ANZ	0.5	1.0	0.2	1.7	5.8
Western Europe	7.0	16.0	3.0	26.0	70.0
USA & Canada	7.4	11.9	9.2	28.5	90.6
Asia	8.2	17.0	22.0	47.2	215.0
Japan	3.4	13.0	12.0	28.4	76.0
Total World Market	29.9	71.9	58.4	160.2	457.4

Frost & Sullivan, Market insights into the Global Ultrasound Market, September 2006
According to this report, the Global Ultrasound Market is growing at approximately 5% per annum.

The US Centers for Disease Control (CDC) recommends the use of hydrogen peroxide for high-level disinfection of intra-cavity probes because it is “not toxic to staff, patients, probes, and retrieved cells”. High-level disinfection of ultrasound probes between patients is also recommended. These requirements were announced in the “Guidelines for Disinfection and Sterilization in Healthcare Facilities 2008” from the US Centers for Disease Control (CDC).

trophon

The Global Ultrasound Market is extremely attractive for Nanosonics. Ultrasound as a diagnostic modality continues to increase in clinical relevance with total potential market opportunity of 500 million ultrasound procedures per annum globally. This equates to a total market opportunity in excess of AU$1.5B.

Review of Operations

Financial Year 2009 was a significant year in the history of the Company. Achievements in FY 2009 included registration and subsequent product launch into Australia; lodgement of the FDA 510(k) regulatory application in the USA; scale up of the manufacturing capability and the launch of the Trophon EPR into Australia, New Zealand and France.

Financial Year 2009 is the first year in which Nanosonics recognised sales revenues. This milestone in the Company's development occurred in March 2009, with the controlled release of the Trophon EPR into the Australian market. This was planned to enable the Company to work with local customers and understand the product performance. Feedback has been excellent, with strong support for the product and its performance characteristics. Subsequent roll outs have occurred in New Zealand and France.

The controlled roll out plan has been executed to enable the development of robust internal processes and procedures to ensure that the Company can continue to focus upon delivering the highest quality device at the lowest delivered cost. The plan is expected to run into Q1 of FY 2010 which will provide up to 6 months experience with product in the field. This experience will provide the necessary data upon which a decision will be made to enable the Company to then pursue a more aggressive introduction to other markets. Revenue and Cash flows achieved in Q4 FY2009 and Q1 FY2010 are on track with the controlled roll out strategy. Revenues and Cash flows in FY2010 are expected to increase as the Company executes the market launch strategies to meet market demand.

The Company has been further encouraged by strong demand from the Australian market, and significant demand from the rapidly evolving European markets.

Market drivers

Australia & New Zealand The initial markets in Australia and New Zealand have multiple benefits as a first market for the Trophon EPR. The benefits include a supportive customer base driven by legislative requirements to provide High Level Disinfection between patients when intra-cavity probes have been used.

The majority of hospitals and private clinics are currently using chemical disinfectants with their attendant disadvantages. As a result of these current practices, there has been significant interest in the Trophon EPR to provide a more compliant OH&S operating environment for end users. Feedback has been very positive from our customer base, with particular reference to the ease of use of the product, and the removal of toxic chemicals from practices.

Europe In Europe there are several key market drivers, these include the rapid spread of "superbugs" such as MRSA and *Clostridium difficile*, both of which can be transferred through skin contact. Infection control practitioners are now driving the use of standardised procedures to mitigate the risk of transmission of these bacteria between patients. Other drivers include the desire of several national health regulatory bodies to ban the use of dangerous chemicals such as aldehydes in their hospitals. This provides a significant opportunity for an environmentally friendly customer solution such as the Trophon EPR.

USA Nanosonics' entry into the largest world market has been aided by the Centers for Disease Control (CDC) Guidelines for Medical Disinfection which confirms -that aldehydes may be toxic when used in IVF procedures; that currently used aldehydes may damage ultrasound probes; and, that alcohol based solutions are not adequately validated to ensure efficacy. This pre-eminent body recommends the use of a hydrogen peroxide based solution for High Level Disinfection of probes between patients. The Trophon EPR complies fully with their guidelines, providing a quality assured process with both OH&S and environmental benefits which is expected to gain rapid acceptance in this market.

Competition

Based on market feedback, the Company believes that it enjoys a significant first mover advantage. The Trophon EPR is the only device providing a fully automated, quality assured process that removes toxic chemicals from the workplace and provides a higher efficacy of disinfection (High Level Disinfection Plus) and can be installed at the point of care. Currently available disinfection solutions are predominantly manual in nature or involve the use of toxic chemicals, neither of which gives the range of benefits that are provided by the Trophon EPR.


nanosonics
→Purge
Setup
System Information
Back ↑ ↓ OK
trophon EPR
High Level Disinfection

Nanosonics has built an exciting foundation for its future product development program

Ron Weinberger, Executive Director and General Manager Innovation and Technology

Within Europe there has been some historical use of "wipes" which decontaminate probes to a limited level without short efficacy and reproducability. Due to the manual nature of this process and its limitations, there is a material risk that inadequate disinfection has occurred. Some health services in Europe have advised that if an automated disinfection process is available, it should be used to replace the manual one.

Market launch strategy

Throughout the year, Nanosonics has expanded its distribution network in Australia, New Zealand and Europe. Product releases into the UK, Germany, Switzerland, Italy, Portugal, Russia, Israel, Scandinavia, Poland and the Baltic States remain on track for the first half of FY2010.

The Company is also in advanced discussions with potential distribution partners in Singapore, Malaysia, Hong Kong, and Taiwan. Anticipated product launch in these markets is expected later in FY2010.

Distribution partners have been identified in the USA, with appointments expected in Q2-FY2010. The application to the FDA for approval to market was lodged in May 2009. Due to recent changes in the US administration, it is expected that discussions with the FDA will commence late in Q2-FY2010.

Discussions with potential distributors in Japan are underway, with a planned regulatory lodgement to the Ministry of Health in Q3 FY2010. It is anticipated that this approval may take up to 18 months for processing.

Research & Development

The Company continues to invest in future product development through its Innovation & Technology Team. The team has made outstanding progress with several new products, including a Transoesophageal Echocardiagram (TEE) probe disinfector which has reached prototype stage, and is performing to expectations.

The team is also evaluating entry strategies into the single lumen endoscope reprocessing market. This market is highly regulated, with the new standard EN15883 controlling the process parameters for development.

Other market segments currently under evaluation include room and space decontamination.

A number of new international patent applications have been lodged with IP Australia focussing on novel approaches to accelerate decontamination and remediation of confined spaces such as operating theatres. Further protection has been sought for the Trophon consumable and the earlier core technology patents have entered the international review process.

Nanosonics has made the transition from a pure R&D Company in FY2008 to a Company that has proven it can take a product to the commercial stage in FY2009. This transition has been smoothly managed by the use of specific resources for each stage of the Company's growth. The Company remains focussed upon the development of customer centric solutions that require the development of new & innovative solutions that bring a competitive advantage to the business.

A feature of the solutions is that they will generate dual revenue streams from the sales of equipment and the subsequent sales of consumables.

Future opportunities within the healthcare market continue to grow. The move towards day surgeries and physician provided healthcare are opening up new opportunities for the development of solutions that provide a rapid disinfection cycle, with minimal operator intervention. Nanosonics' through the continued refinement of the NanoNebulant technology is well placed to take advantage of this growing opportunity.

Manufacturing & Operations

The commercial production of the Trophon EPR commenced late in Q2-FY2009, with the hiring of the first assembly team. This team is now scaling up production at the facility in Sydney. The Trophon production line capacity can be increased to meet market demand of up to 4,000 units per annum. Arrangements are already in place to transition to an external manufacturer once this increased capacity is reached. The transition can be managed quickly and without impact, in parallel with current product assembly.

The Company has made a major investment in Quality Systems and processes to further improve the development of manufacturing. A dedicated Quality manager was appointed in July 2009.

One of the major projects undertaken during Q4-FY2009 has been to ensure the integrity of the supply chain for critical production materials. Nanosonics owns the core tooling associated with custom designed components and some of the unique parts. The Company is working closely with major vendors and manufacturers of the parts to ensure that sufficient buffer stock is held to address increased demand.

Financial Results

The Company recorded its first revenues from sales of $309,000. Operating costs of $10,286,000 reflected an increase of $84,000 on the previous year and included the costs of transitioning to manufacturing and the development of overseas markets.

A comparative summary of the consolidated financial results for the year to 30 June 2009 is set out below.

	2009	2008	2007	2006
	A$'000	A$'000	A$'000	A$'000
Revenue				
Sales	309	–	–	–
Less Cost of Sales	-121	–	–	–
Gross profit	188	–	–	–
Government grants received	150	1,112	2,221	1,366
Other income	–	–	9	–
Interest income	1,194	1,943	635	220
Expenses				
Operating expenses	-10,286	-10,202	-8,568	-3,349
Operating loss before tax	-8,754	-7,147	-5,703	-1,763
Cash Assets				
Cash and cash equivalent assets on hand	13,881	24,225	31,907	6,590
Market capitalisation				
Closing share price on 30 June	$0.40	$0.20	$0.64	Not ASX
Shares on issue at 30 June (millions)	196	195	194	123
Market capitalisation at 30 June (A$ millions)	$78.5	$39.0	$124.4	

Further details of the financial results are set out in the financial statements on pages 43 to 46 of this report.

Net cash outgoings amounted to $10,347,000, an increase of $2,664,000 on the previous year, which included investments of $1,195,000 in capital equipment and $919,000 in increased inventories. Cash reserves at the end of June 2009 of $13.9 million are consistent with the Company's business plans. The Company remains well-positioned, with sufficient cash reserves, to execute the commercialisation of Trophon EPR and its other planned activities in FY2010.

Nanosonics has made significant changes to enable it to better focus upon the continued successful release of the Trophon EPR, whilst also continuing to develop subsequent product releases. These changes have resulted in an improved alignment of the Company's capabilities with its anticipated needs in the short to mid-term.

The Nanosonics team is committed to the Company's success, with recent options and share issues rewarding their strong contribution on the Company progress, and enabling them to share in the future success of the business. The Company continues to develop high potential individuals through the use of stretch assignments and development beyond their current job scope. The team continues to respond well to these initiatives and learning opportunities, which will continue to drive the Company's future success.

The features that make Nanosonics a strong, competitive and sustainable business are discussed in more detail on page 14 of this report. These features make Nanosonics a compelling global partner, a stimulating career for its people and an attractive prospect for our shareholders.

In conclusion

The Company is well positioned for its expected growth in FY2010. The market opportunities are well defined, and the markets are rapidly evolving and defining their requirements for technologies led by the launch of the Trophon EPR.

David Radford
Executive Director and CEO

Sydney
19 August 2009

Nanosonics' advantage

Integration

Nanosonics' advantage is founded on its unique patented technologies, its highly capable staff, its understanding of market opportunities and its careful management of risk. These combined ensure that Nanosonics is a company well-positioned and prepared for future success and sustainability.

The Company has purposefully focussed its activities to date on developing and commercialising its first product so that it creates a technological platform for the future whilst proving its technological concepts for new markets and generating self-sustaining cashflow. Nanosonics' vision is to provide safe, effective microbial control through unique products developed for precisely targeted applications of its technology.

Nanosonics' long term focus requires sustainable business practices and sound governance and risk management to provide best value to stakeholders, the community and the environment.

Business continuity

Nanosonics' continuously assesses risks across its business. The Company's risk management processes are designed to understand the level of risk the Company is exposed to and to take the necessary precautions to reduce risks to acceptable levels at all times.

Intellectual property

Nanosonics' IP portfolio is the foundation for the Company's success and sustainability. Its IP strategy aims to protect the IP through families of inter-related patents protecting all the unique properties of the Company's products and technology. Full details of Nanosonics IP can be found on page 17 of this report.

Quality control

Nanosonics is proud of its excellent record in quality standards and to date has met all regulatory objectives. The Company's quality management system is integrated at each level of business and is designed to facilitate all areas of research, product development and manufacturing whilst remaining compliant with regulatory requirements.

Cash reserves

Nanosonics' disciplined capital management program has ensured continuous and adequate cash reserves for its operations. To date the Company has been debt-free and current commercialisation strategies are planned to ensure its current operations are self-funded.

Supply chain

Nanosonics global Supply Chain program ensures that crucial vendors meet and exceed our stringent quality requirements. All suppliers have been assessed in terms of quality accreditation and financial stability to ensure continued supply of quality components.

This process is coupled with ongoing supplier monitoring activities, ensuring continuous improvements in quality.

Continuity of Supply Chain and risk management is managed through:

- Vendor relationship management;
- Ownership of all custom tools;
- Use of generic components where possible; and
- Strategic selection of key suppliers – the Company's most critical suppliers are Australian based.

An extensive relationship development program has been undertaken with crucial vendors to ensure that Nanosonics' business requirements, such as quality, lead-time and stock holding are met.

Environment

The Company has set a goal for all products to be RoHS compliant by 2010. Additionally, the only by-products of the NanoNebulant disinfection process are water and oxygen, while the consumable bottle is made from recyclable plastic. Where possible, promotional and support materials are printed on recycled paper.

The integration of our ERP and QM system ensures that only products of the highest quality are delivered to our customers.

Arjang Safa, General Manager Manufacturing and Supply Chain

Social

Innovation is a central part of Nanosonics culture and all employees are encouraged to develop and pursue innovative ideas to deliver solutions that meet customer needs. Nanosonics’ requirements of new product development are that its products satisfy all of its bench marks for safety, convenience, quality assurance and environmental sustainability.

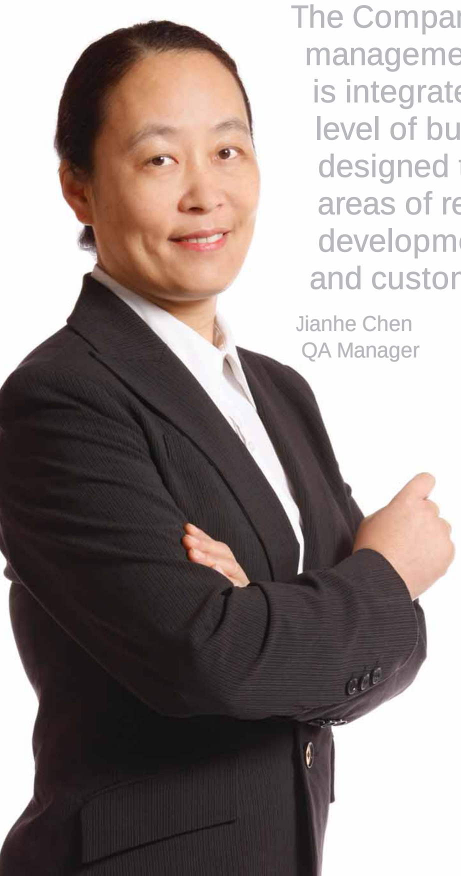
With internal skill sets including chemical science, bacteriology and virology, physics, electrical engineering, systems engineering, industrial design, device manufacturing, regulatory affairs, marketing and international business development, the Company has invested in a team that delivers results. Many employees have years of experience gained in the biotechnology sector and in established medical devices companies. It is only with the best people that big ideas can be generated.

The Company actively encourages its employees to pursue lateral and ground breaking R&D programs. These have generated significant benefits for the business.

Nanosonics attracts, recruits, motivates and develops people with the skills and experience needed to create the foundations for its future.

Governance

Nanosonics recognises the importance of good governance in the Company’s leadership and operations. The principles and standards of governance are set by the Board of Directors. The Board is composed of a strong yet complementary mix of relevant and proven individual experience and skills. The Board and senior management understand and apply the generally accepted principles of good governance. Details of how the Board, the Company Secretary and management interpret and apply good governance are set out in the Corporate Governance Statement on page 28.



The Company’s quality management system is integrated at each level of business and is designed to facilitate all areas of research, product development, manufacturing and customer service.

Jianhe Chen
QA Manager

Periodically Nanosonics undertakes extensive skills audits in conjunction with business needs and existing talent, as evidenced within the business. The Company has a process to ensure that current capabilities match the Company’s needs now and for the future.

Kirste Jarvis
HR Manager

Intellectual Property

Nanosonics' strategy is to protect its platform technologies and designs that provide significant competitive advantages and to protect future revenues and product ranges. Nanosonics' platform technology is protected by a combination of patents, trademarks and confidentiality agreements.

Nanosonics current portfolio exists of 13 patent families. Each patent family provides Nanosonics with a fundamental competitive advantage protecting the Company's inventions on multiple levels:

1. Core technology platform
2. Strategic patents to protect core IP
3. Specific product related protection such as the mechanisms of aerosol manipulation and disinfection certifying disinfection and measuring aerosol
4. Consumable protection including design
5. Establishing infringement barriers to prevent copying of our products

The Company continuously develops its patent portfolio with three new patent applications added in the year to 30 June 2009.

Patent Family	Description	Status (all regions)	Priority Date*
Improved Disinfection	Aerosol disinfection using liquid disinfectant combined with a surfactant	Granted or awaiting / undergoing National examination[a]	23 June 1998
Quaternary Ammonium Compound Liquid Disinfectant	A method of high level disinfecting using a liquid incorporating greater than 1% w/w quaternary ammonium compound	Granted or awaiting / undergoing National examination[a]	9 July 2004
Space Disinfection	A method for disinfecting a space using a concentrated aerosol or with controlled humidity	Awaiting / undergoing National examination[a]	4 August 2005
Improved Aerosol	An ultra fine mist to disinfect and sterilise, including the process of vapour removal and controlled humidity	Awaiting / undergoing National examination[a]	4 August 2005
Membrane Sterilisation	Enclosing an article in a chamber featuring a semi-permeable membrane and introducing a biocide for sufficient time such to sterilise or disinfect the article	Awaiting / undergoing National examination[a]	4 August 2005
Membrane Concentrator	An aerosol and vapour biocide concentrator incorporating a semi-permeable membrane	Awaiting / undergoing National examination[a]	4 August 2005
Membrane Vapour Concentrator	A vapour biocide concentrator incorporating a semi-permeable membrane	PCT awaiting National entry	2 February 2007
Sub-cycle Based Disinfection System	A method for fast disinfection and rapid removal of residual sterilant	PCT awaiting examination	30 June 2008
Aerosol Sensor	A method and apparatus for the measurement of aerosol for the purposes of certifying sterilization	PCT awaiting examination	30 June 2008
Safe Chemical Delivery System	A method and apparatus for the safe handling of chemical consumables	PCT awaiting examination	30 June 2008
Nebulizer Manifold	A manifold for improving aerosol properties and flow in a chamber	Provisional filed	15 August 2008
Decontamination Aerosol	Self neutralising aerosols	Provisional filed	22 May 2009
Disinfection Product and process	Self neutralising aerosols	Provisional filed	22 May 2009
Design Family			
Bottle	Non-refillable bottle for safe delivery of consumables	Priority application filed	1 June 2009

a) some national applications not of interest have now been abandoned

* Patents expire 20 years after filing date or priority date.

Information on the Directors, Company Secretary and Senior Management

Maurie Stang

Non-Executive Chairman

Mr Stang has been Non-Executive Chairman since March 2007 and a member of the Board of Directors since November 2000. He was re-elected on 26 November 2007.

Mr Stang is a member of the Audit and Risk Management committee, Governance and Nomination committee and Remuneration committee.

Skills, experience and expertise

Mr Stang has more than two decades of experience building and managing companies in the healthcare and biotechnology industry in Australia and Internationally. He has strong business development and marketing skills which resulted in the successful commercialisation of intellectual property across global markets.

Other current and former Directorships in last 3 years

Mr Stang is Non-Executive Chairman of Aeris Environmental Limited (ASX code: AEL)

Related parties

Details of transactions in the financial year ended 30 June 2009 between the Group and entities which are considered

David Fisher   Maurie Stang   David Slack to be Director-related parties are set out in note 28(f) to the Financial Report on page 69.

David Radford BSc (Hons), MBA, GAICD

Executive Director and Chief Executive Officer

Mr Radford has been Chief Executive officer and a member of the Board of Directors since 16 June 2008. He was re-elected on 18 November 2008.

Responsibilities

Mr Radford has executive responsibility for the overall leadership of the business and implementation of its strategic plans, specifically to build strategic partnerships and exploit opportunities in product innovation and business development.

Skills, experience and expertise

Mr Radford has more than two decades of international business experience in medical device and healthcare industries with leading companies, including senior positions with GE Healthcare, Brambles Australia and Cobe Laboratories. Mr Radford has been actively involved in the global roll-out of new products and services in Australia and Asia. He has extensive skills in marketing, business strategy, change management and organisational structure.

Chris Grundy   Arjang Safa   Ron Weinberger   David Radford

Mr Radford is qualified with a BSc Honours degree in Applied Biological Sciences from Bristol Polytechnic (UK), specialising in microbiology, and an Executive Masters of Business Administration degree from the Australian Graduate School of Management.

Other current and former Directorships in last 3 years

No ASX listed companies

Ron Weinberger BSc (Hons), PhD

Executive Director and General Manager Innovation and Technology

Dr Weinberger was appointed Executive Director on July 2, 2008. He was re-elected on 18 November 2008.

Responsibilities

Dr Weinberger is General Manager Innovation and Technology and has executive responsibility for all of Nanosonics' discovery and development programs, including the portfolio of intellectual property.

Dr Weinberger is also the Chairman of the Company's Advisory Board.

Skills, experience and expertise

Dr Weinberger has been with the Company since August 2004. He has over two decades of experience in the medical research and biotechnology arena. He is an Intellectual property expert and entrepreneur in the development of novel technologies. Dr Weinberger is co-inventor of several of Nanosonics' key technologies which underpin the Company's platform technology. He has proven experience in negotiating, developing, designing and managing large scale R&D programs with a strong commercial perspective.

Dr Weinberger is qualified with a BSc Honours degree in pharmacology and a PhD degree in medical biochemistry. He has authored more than 50 papers in the biomedical sciences.

Other current and former Directorships in last 3 years

No ASX listed companies

David Fisher BRurSc (Hons), PhD, MAppFin, FFin

Non-Executive Director

Dr Fisher has been a member of the Board of Directors since 30 July 2001. He was re-elected on 18 November 2008.

Dr Fisher is Chairman of the Audit and Risk Management Committee and of the Remuneration Committee and he is a member of the Governance and Nomination Committee.

Skills, experience and expertise

Dr Fisher is managing director of Brandon Capital Partners, a leading Australian venture capital provider. He has over two decades of extensive operating experience in the biotechnology and healthcare industry in Australia and overseas. Dr Fisher was CEO of Peptech Limited (now part of Cephalon Inc (Nasdaq:CEPH). During this period Peptech grew from a start up to having R&D operations in Australia, the UK, the US and manufacturing operations in Denmark. Prior to Peptech Dr Fisher spent ten years with Pharmacia AB (now part of Pfizer, Inc), including five years at their head office in Sweden.Dr Fisher is qualified with a first class Honours degree in Rural Science, a Masters degree in Applied Finance and Investments and a PhD in Chemical Engineering from the University of Sydney.

Other current Directorships

Dr Fisher is a director of Australian Biomedical Fund No.1 Ltd, Australian Biomedical Fund No.2 Ltd and Australian Biotechnology and Healthcare Fund No.3 Ltd, all of which are investors in the Company (see page 79 of this report) and Signostics Inc.

Other current and former Directorships in last 3 years

No ASX listed companies.

David Slack BEc

Non-Executive Director

Mr Slack was appointed Non-Executive Director on 5 February 2009.

Mr Slack is Chairman of the Governance and Nomination committee a member of Audit and Risk Management committee.

Skills, experience and expertise

Mr Slack has over three decades experience in the business, finance and banking industry. He has held senior positions with a number of listed financial institutions including Suncorp Metway Limited and Macquarie Bank Limited. Mr Slack was with Macquarie Bank for a period of ten years and held the positions of Executive Director and Managing Director of Macquarie Leasing Pty Limited. Mr Slack was responsible for the formation of Macquarie Leasing and its subsequent development into a substantial business. Mr Slack is qualified with a Bachelor of Economics degree.

Other current and former Directorships in last 3 years

Macquarie Leasing Pty Ltd, a subsidiary of Macquarie Bank Limited (ASX code: MBL).

Interests of Directors

The relevant interest of each Director in the shares and share options of the companies within the consolidated Group at the date of this report, as notified by the Directors to the Australian Securities Exchange in accordance with section 205G(1) of the Corporations Act 2001, are set out below. All shares and options are in the parent entity, Nanosonics Limited.

Directors	Ordinary shares	Options over ordinary shares
Maurie Stang[5]	28,377,000	–
David Radford	116,117	1,000,000
David Fisher[6]	944,426	–
David Slack	100,000	50,000
Ron Weinberger	108,203	1,175,000

5 Mr Maurie Stang (Non-Executive Chairman) and Mr Bernard Stang each have a relevant interest in the holdings of the other's shares as they are associates of each other for the purposes of section 15 of the *Corporations Act 2001*. At the date of this report, Mr Bernard Stang held 28,540,000 shares in the Company.

6 Dr David Fisher is a director of Brandon Capital Management Pty Limited (Brandon), which manages three investment funds independent of Brandon (each a "Fund") that in aggregate held 8,083,789 shares at the date of this report. Whilst Brandon is expected to and does make recommendations to the boards of management of these Funds, neither Dr Fisher nor Brandon is able to control decisions regarding any Fund's shares. Accordingly, the Directors advise that Brandon does not have any relevant interest in any of the shares held by any Fund and they are not included in Dr Fisher's interests stated above.

Chris Grundy BCom, FCA, FCIS, GAICD

Chief Financial Officer and Company Secretary

Mr Grundy has been with the Company since June 2007. He is responsible for overall financial management, company secretarial practice and investor relations.

Skills, experience and expertise

Mr Grundy has over 15 years experience in medical devices, pharmaceuticals and complementary medicines, with Bayer and other large Australian companies, including CFO and Company Secretary of an ASX top-200 company. He has held lead roles in general management, finance, operations and sales and marketing in Australia, Britain and Southern Africa, and in professional services with Ernst & Young in Southern Africa. Mr Grundy is qualified as a Chartered Accountant and as a Chartered Secretary, and holds a B.Com degree and a Graduate Diploma in Applied Corporate Governance. He has 8 years experience as a Company Secretary.

Arjang Safa BTech

General Manager Manufacturing and Supply Chain

Mr Safa has been with the Company since May 2007 and was appointed General Manager Manufacturing and Supply Chain in January 2008. He is responsible for the coordination of operational activities to ensure that the Company's products are manufactured and supplied in line with demand.

Skills, experience and expertise

Mr Safa has over 15 years of experience and in-depth knowledge of product design for manufacturability, plant design and layout, supply chain management and internal operations systems development to the Company.

Mr Safa is qualified with a B.Tech (Manufacturing Engineering) degree and an associate diploma in Mechanical Engineering.

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as the Group), consisting of Nanosonics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

This report includes the Review of Operations on pages 8 to 13, the Information on Directors and Secretary (including Interests of Directors) on pages 18 to 21 and the Remuneration Report on pages 32 to 41.

Principal activities

During the year the continuing principal activities of the Group consisted of research, development and commercialisation of infection control and decontamination products and related technologies.

In addition, the Company made its first sales, in March 2009, of the Trophon EPR ultrasound probe disinfector and associated consumables. Further information is included in the Results of Operations below, in the Review of Operations and in the Financial Statements.

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

Results of Operations

Revenue for the year amounted to $1,653,000 (2008: $3,055,000) including 309,000 (2008: $nil) from sales. The net operating loss before and after income tax amounted to $8,754,000 (2008: $7,147,000). The Group incurred net cash outflows for the financial year of $10,347,000 (2008: $7,682,000) excluding net proceeds from the issue of shares) which were applied to on-going business development and operations. Cash reserves at 30 June 2009 amounted to $13,881,000 (2008: $24,225,000). Other information on the operations of the Group and its business strategies and prospects is discussed in the Review of Operations on pages 8 to 13 of this annual report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the year and to the date of this report.

Listing rule 1.3.2(b)

Nanosonics' admission to the Australian Securities Exchange Limited on 17 May 2007 was under Listing Rule 1.3.2(b) which applies where half or more of the Group's total tangible assets are cash or in a form readily convertible to cash and the Group has commitments consistent with its business objectives to spend at least half of its cash and assets readily convertible to cash.

Since 17 May 2007 and to the date of this report, the Group used and continues to use the cash and assets readily convertible to cash which it had at the time of admission in ways consistent with its business objectives.

Dividends – Nanosonics Limited

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2009. No dividends were proposed, declared or paid during the financial year (2008: Nil).

The immediate purpose of the Company is the commercialisation of its first products. The Company's dividend policy in the future, the extent of future dividends and any franking of dividends will depend upon the profitability and the financial and taxation position of the Group at the relevant time.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group that were not finalised by the date of this report included programs for the commercialisation of the Company's first product.

Comments on expected results of the operations of the Group are included in the Review of Operations on pages 8 to 13.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulations in respect of its operations.

Information on Directors

The information on the Directors and Secretary is a part of the Directors' Report. Information on the Company Directors, Company Secretary and Key Management Personnel can be found on page 18 to 21 of this Annual Report.

Directors and Committees of the Board

During the year and to the date of this report, the Board and Committees of the Board of Nanosonics Limited comprised the following members:

Board of Directors Nanosonics Limited	Maurie Stang, Non-Executive Chairman David Radford, Executive Director, CEO David Fisher, Non-Executive Director David Slack, Non-Executive Director (appointed 5 February 2009) Ron Weinberger, Executive Director (appointed 2 July 2008) William Widin, Non-Executive Director (resigned 5 February 2009)
Audit and risk management committee	William Widin, Chairman to 5 February 2009, resigned 5 February 2009. David Fisher, Chairman from 5 February 2009 David Slack, from 5 February 2009 Maurie Stang
Governance and nomination committee	William Widin, Chairman to 5 February 2009, resigned 5 February 2009. David Slack, Chairman from 5 February 2009 David Fisher Maurie Stang
Remuneration committee	William Widin, Chairman to 18 November 2008, resigned 5 February 2009. David Fisher, Chairman from 18 November 2008 Maurie Stang

Retirement, resignation, appointment and continuation in office of Directors and Secretary

(a) Directors

Dr Ron Weinberger was appointed a Director on 2 July 2008. In accordance with the Constitution, both Dr Weinberger and Mr David Radford, who was appointed a Director and CEO on 16 June 2008, retired at the 2008 annual general meeting. Both Mr Radford and Dr Weinberger were re-elected at that meeting and continue in office at the date of this report.

Mr David Slack was appointed a Director on 5 February 2009 and continues in office at the date of this report. In accordance with the Constitution, Mr Slack retires as a Director at the next annual general meeting and, being eligible, offers himself for re-election.

Mr William Widin was a Director from the beginning of the financial year until his resignation on 5 February 2009.

Mr Maurie Stang and Dr David Fisher were Directors at the beginning of the financial year and continue in office at the date of this report. In accordance with the Constitution, Mr Stang retires as a Director at the next annual general meeting and, being eligible, offers himself for re-election.

(b) Secretary

Mr Chris Grundy continued as Company Secretary throughout the financial year and to the date of this report.

Meetings of Directors

The number of Directors' meetings, (including meetings of the Committees), held during the year ended 30 June 2009, and numbers of meetings attended by each of the Directors were as follows:

	Full meetings of Directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Maurie Stang	10	10	2	2	1	1	3	3
David Radford	10	10						
David Fisher	10	9	2	1	1	1	3	3
David Slack[1]	4	4						
Ron Weinberger[2]	9	8						
William Widin[3]	6	6	2	2	1	1		

1 David Slack was appointed 5 February 2009
2 Ron Weinberger was appointed 2 July 2008
3 William Widin resigned 5 February 2009
A Number of meetings held during the time the Director held office or was a member of the committee during the year
B Number of meetings attended during the time the Director held office or was a member of the committee during the year

Loans to Directors and Executives

During the financial year and to the date of this report, the Group made no loans to Directors and other key management personnel and none were outstanding at the year end on 30 June 2009 (2008:nil).

Share-based payments

Shares issued under the DESP and options granted under the ESOP and GSOP during the year are detailed below. These were part of the Company's long-term incentive plans and also in recognition of the achievements of the Company's personnel and contractors in the commericalisation of its first product, the Trophon EPR ultrasound probe disinfector.

Shares issued

During the year ended 30 June 2009 and to the date of this report, the Company issued 1,199,324 (2008: 764,380) new ordinary shares in Nanosonics Limited as detailed below. No amount was unpaid on any of the shares so issued. Further information on the issues is provided in Note 32 to the financial statements.

Shares issued	Number of shares issued
Options exercised under Employee Share Option Plan (ESOP)	561,500
Options exercised under General Share Option Plan (GSOP)	50,000
Shares issued under Deferred Employee Share Plan (DESP)	587,824
Total shares issued	**1,199,324**

As at 30 June 2009 and at the date of this report there were 196,282,947 (2008: 195,083,623) ordinary shares in Nanosonics Limited on issue. Further information on issued shares is provided in Note 20 to the financial statements.

Share Options granted	Number of options issued
Employee Share Option Plan (ESOP)	2,410,000
General Share Option Plan (GSOP)	220,000
Total share options issued	**2,630,000**

During the financial year and to the date of this report, the Company granted, for no consideration, 2,630,000 (2008: 445,000) unquoted options over unissued ordinary shares in Nanosonics Limited as detailed below. Further information on the issues is provided in the note 32 to the financial statements.

Shares under option

At the end of the financial year and at the date of this report, there were 7,548,500 (2008:14,198,560) unissued ordinary shares of Nanosonics Limited under option as detailed below. Further information on the options is proved in Note 32 to the financial statements.

Shares under option	Number of shares under option
Employee Share Option Plan (ESOP)	5,563,500
General Share Option Plan (GSO)	1,985,000
Total share options issued	**7,548,500**

The options entitle the holder to participate in a share issue of the Company provided the options are exercised on or after their vesting date and prior to the expiry date. No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums of $35,418 (2008: $39,146) to insure the directors and secretary and key management personnel of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their positions or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

No indemnities have been given or insurance premiums paid, during or since the financial year, for any person who is or has been an auditor for the Group.

Proceedings on behalf of the Company

No person has applied to 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 those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Audit and non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor and
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Details of the amounts paid or payable for audit and non-audit services provided by the auditor of the Group, its related practices and non-related audit firms are set out in Note 27 to the financial statements.

Auditor's Independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 42 of this report.

Auditor

UHY Haines Norton continues in office as auditor in accordance with section 327 of the *Corporations Act 2001*.

This report, which includes the Review of Operations (on pages 8 to 13), the Information on Directors and Secretary (on pages 18 to 21 and the Remuneration Report (on pages 32 to 41) is made and signed in accordance with a resolution of Directors.

David Fisher
Director

Sydney
19 August 2009

Corporate Governance Statement

The Board of Directors of Nanosonics Limited is responsible for the corporate governance of the Company and of the Group, consisting of the Company and its subsidiaries. The Board regularly reviews the policies and practices applied by the Group to ensure they meet the interests of shareholders and other key stakeholders, both for the present and as the Group progresses its business plans and grows in operational complexity. In developing, updating and applying its corporate governance policies and practices, the Group supports the ASX Listing Rules and the Corporate Governance Principles and Recommendations (2nd Edition, 2007) issued by the Australian Securities Exchange, as well as other prominent guidance on good governance. The Group has followed the ASX Corporate Governance Principles and Recommendations, except as noted below.

A summary of the Group's main corporate governance practices is set out below. Further information is available in the Group's various Charters and Policies, mentioned below, copies of which are available on the Company's website.

Management and oversight

Role of the Chairman

The Chairman is responsible for leading the Board, its meetings and Directors, so that all Directors are able to contribute effectively, all matters are properly considered and there is clear decision-making. The Chairman has ultimate responsibility for corporate governance.

Role of the Board

Under the leadership of the Chairman, the role of the Board is to provide strategic guidance to the Group and to provide effective oversight of its management for the benefit of shareholders and other stakeholders. The Board acts on behalf of shareholders and is accountable to the shareholders for the overall strategy, governance and performance of the Group. The Board retains ultimate authority over the management of the Group; however day-to-day management of the Group's affairs and the implementation of its strategies are formally delegated by the Board to the Chief Executive Officer (CEO) and senior executives. The respective roles and responsibilities of the Board and senior executive, and how they are separate, are set out in detail in the Group's Corporate Governance Charter.

The Board meets regularly in accordance with an agreed schedule and special meetings are held as required. The Board continuously reviews its own performance and mix of skills to ensure that they allow the Board to maximise its effectiveness and contribution to the Group. Directors and the Board have the right, in connection with their duties and responsibilities, to obtain independent professional advice at the Company's expense. Subject to prior approval from within the Board, which will not reasonably be withheld, a Director may have direct access to any employee or contractor of the Group and seek any information from any employee in order to perform his or her responsibilities.

Committees of the Board

The Board is assisted by Committees which are responsible for aspects of the operation of the Group and which act by examining relevant matters and making recommendations to the Board. The Board may establish additional Committees to assist it in carrying out its responsibilities. The Board may also delegate specified responsibilities to ad-hoc Committees from time to time. The Board expects each Committee to meet as often as necessary to fulfil its obligations. The Directors must be satisfied that the members of the Board's Committees are competent and reliable and will exercise their delegated functions in accordance with Directors' duties. The Board authorises each Committee to seek any information and advice it needs, at the cost of the Company, to assist it in the performance of its obligations. The Committees do not have executive powers in respect of their findings and recommendations. The Board intends that each Committee has an independent director appointed as its Chairman. The membership and performance of Board Committees is assessed at least once every year by those Committees and the Board.

Currently there are three Committees of the Board: the Governance and Nomination Committee, the Audit and Risk Management Committee and the Remuneration Committee. Summaries of the roles and responsibilities of each of the current Committees are provided in this Corporate Governance Statement. Details of Directors' attendances at meetings of the Committees are shown on page 24 of this Annual Report.

Advisory Board

In addition to the Board Committees, the Board has appointed and is advised by the Company's Advisory Board, which comprises highly qualified experts with an array of skills and experience relevant to the Group's operations and objectives. The role of the Advisory Board is to provide independent scientific, technical, regulatory and commercial advice and reports to the Board and senior executives on request.

Senior Executives

The Group sets responsibilities and performance expectations for all senior executives, as described on pages 32 to 33 of this Annual Report. The Nanosonics Performance and Development Program requires peer reviews and individual appraisals by a Director at least annually for all senior executives. In accordance with that program, peer reviews and individual appraisals of the performance of all senior executives were undertaken by the Chief Executive Officer during the year under review in this Annual Report.

Structure of the Board

The current Board consists of three non-executive directors and two executive directors. The role of the Chairman is separate from that of the Chief Executive Officer.

- Mr Maurie Stang is non-executive Chairman: appointed a Director 14 November 2000, re-elected 26 November 2007
- Mr David Radford is Chief Executive Officer: appointed 16 June 2008, re-elected 18 November 2008
- Dr David Fisher is non-executive Director: appointed 30 July 2001, re-elected 18 November 2008
- Mr David Slack is non-executive Director: appointed 6 February 2009
- Dr Ron Weinberger is executive Director: appointed 2 July 2008, re-elected 18 November 2008

Details of each Director, including their qualifications and experience, are set out in the Information on Directors on pages 18 to 21 of this Annual Report.

Directors' independence

Directors' independence is assessed according to the provisions set out in the Company's Corporate Governance Charter and in the ASX Corporate Governance Principles and Recommendations. Accordingly:

- Mr M Stang is not considered to be an independent Director as he is a founder of the Company; he held executive office in the Company until March 2007; both he and Mr Bernard Stang, with whom he is associated, are major shareholders of the Company (see page 79 of this Annual Report) and Mr Maurie Stang is a director and/or shareholder of companies with which the Company had significant transactions during the year (see Note 29f on page 69 of this Annual Report).
- Mr Radford and Dr Weinberger are not considered to be independent Directors as they are executives of the Company.
- Dr Fisher is considered to be an independent Director, except that he served as interim Executive Director for the period 14 December 2007 to 16 June 2008.
- Mr Slack is considered to be an independent Director.

A majority of the Directors is not independent and the Chairman is not an independent Director. The Board intends to appoint one or more suitably qualified and experienced independent Directors. At the time when the Company has appointed other independent Directors, the Board will consider its opportunities to appoint an independent Chairman.

Governance and Nomination Committee

The three members of the Governance and Nomination Committee are: Mr David Slack (Chairman), Dr David Fisher and Mr Maurie Stang. The Committee comprises a majority of independent directors and is chaired by an independent Director. The role of the Governance and Nomination Committee, as set out in detail in its Charter, is to provide advice and assistance to the Board in fulfilling its responsibilities, by assessing the competencies, performance, composition and succession plans of the Board. If necessary, the Committee makes recommendations to the Board for the appointment and removal of Directors. The Committee is responsible for advising the Board on issues and policies relating to the recruitment, training, performance, evaluation and remuneration of the Directors and for recommending to the Board a framework for the assessment and evaluation of the performance of each Director individually and of the Board as a whole. The performance of the Board, its Committees and the Directors was evaluated during the year.

Ethical and responsible decision making

Code of Ethics

All Directors, executives, employees, advisors, consultants and contractors of the Group are expected to act with integrity and objectivity and to maintain ethical standards which have been formalised and set out in the Group's Code of Ethics.

Securities Trading Policy

The Company has a Securities Trading Policy, which applies to all Designated Persons, comprising its Directors, officers, senior management, employees and contractors and such other persons as the Board nominates. Designated Persons may only deal in the Company's securities in terms of that policy. Securities trading "black-out" periods are notified to all Designated Persons. The Company periodically reviews share trading reports and its share register to ensure compliance with the policy.

Integrity in financial reporting

Financial systems and compliance

The Chief Executive Officer and Chief Financial Officer have jointly confirmed to the Board that the declaration provided in the 2009 Annual Report in accordance with section 295A of the *Corporations Act 2001* is founded upon sound systems of internal control and that the systems are operating effectively in all material respects in relation to financial reporting risks.

Audit and Risk Management Committee

The three members of the Audit and Risk Management Committee are: Dr David Fisher BRurSc (Hons), MAppFin, PhD, FFin (Chairman), Mr David Slack BEc, and Mr Maurie Stang. The Committee comprises only non-executive directors with a majority of independent directors. The Committee Chairman is an independent Director who is appropriately qualified and financially literate and who is not also Chairman of the Board.

The role of the Audit and Risk Management Committee, as set out in detail in its Charter, is to provide advice and assistance to the Board in fulfilling its obligations for the Group's audit, accounting and reporting; legal and regulatory compliance; and adequacy of and compliance with risk management policies and procedures. The Committee is responsible for reviewing the integrity of the Group's financial systems and reporting and for overseeing the independence of the Company's external auditor. The Committee is responsible for reviewing the Group's policy on risk management and for advising the Board on the effectiveness of that policy. The Committee regularly reports to the Board on all matters relevant to the responsibilities of the Committee.

Timely and balanced disclosure

The Company has a written Information Disclosure Policy designed to ensure compliance with the disclosure requirements of the ASX Listing Rules and to ensure individual accountability at senior executive level for that compliance. In considering whether information should be disclosed, the Board takes into consideration the needs and interests of the Group's shareholders and other stakeholders in the context of the Board's obligations under the *Corporations Act 2001* and the ASX Listing Rules. ASX announcements are prepared directly the Board or Executive Management become aware of information required to be disclosed to the market. The announcements are vetted by the Board prior to their release to the market. Apart from the Group's authorised spokespersons, no employee or associated person may comment publicly on matters that are market sensitive or confidential to the Group.

The Information Disclosure Policy is made known to all Directors, executives, employees, advisors, consultants and contractors, who sign confidentiality agreements designed to prevent unauthorised disclosure of information.

Rights of shareholders

The Company recognises and respects the rights of shareholders and seeks to facilitate the effective exercise of those rights within the limitations of the continuous disclosure provisions of the ASX Listing Rules.

Whilst the Company already practices many aspects of effective communication, it is preparing a formal policy for promoting effective communication with its shareholders and encouraging shareholder participation at general meetings. The policy will be available on the Company's website.

Website and Corporate information

It is Group policy that its corporate information, is complete, timely and available from its website: www.nanosonics.com.au.

The corporate information, including reports and media releases, governance and shareholder information and at least three years of financial data, is available from its website and includes:

- Announcements to the ASX
- Constitution
- Corporate Governance Charter

- Advisory Board
- Audit and Risk Management Committee Charter
- Code of Ethics
- Governance and Nomination Committee Charter
- Securities Trading Policy
- Remuneration Committee Charter
- Information Disclosure Policy
- Terms of Appointment of non-Executive Director
- Risk Management Policy
- Profiles of Directors and senior management
- Notices of Annual General Meetings
- Annual and half-year reports

Engagement with shareholders

Shareholders and prospective shareholders are welcome, by prior appointment, to speak with Executive Managers responsible for Investor Relations and to view the Group's operations.

Risk management

The Group has a Risk Management Policy for the oversight and management of material business risks, which reflects the Group's risk profile and which describes the risk management processes applied. Ultimate responsibility for risk oversight and risk management rests with the Board, which is assisted in its responsibility by the Audit and Risk Management Committee.

The Board requires the Group's Executive Management, led by the CEO, to design, implement and review an effective risk management and internal control system. Executive Management is required to report via the CEO to the Board whether the Group's material business risks are being managed effectively.

In the period under review in this Annual Report, Executive Management has regularly reported to the Board on the effectiveness of the Group's management of its material business risks.

This annual report includes reports on or references to the following risks: strategic planning, IP protection, competition, manufacturing capacity, financial systems and controls, human resources and the environment.

Fair and responsible remuneration

The Group's remuneration philosophy and policies are set out in the Remuneration Report on page 32 of this Annual Report. The Remuneration Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered.

Remuneration Committee

The members of the Remuneration Committee are: Dr David Fisher (Chairman), and Mr Maurie Stang. The Committee comprises a majority of independent directors and is chaired by an independent Director.

The role of the Remuneration Committee, as set out in detail in its Charter, is to provide advice and assistance to the Board in fulfilling its responsibilities in respect of remuneration policies, performance enhancement systems, fair and responsible rewards for individual performance and the performance appraisal of Directors and of the Board as a whole. The Committee is responsible for advising the Board on remuneration issues and policies in the context of the Group's operations and markets and, with regard to the overriding goal that Directors and senior executives are recruited, motivated and retained so as to pursue the long-term growth and success of the Group, for ensuring a clear relationship between individual performance and remuneration structures, both short and long term. The Company will not permit an Executive Director to have direct involvement in the determination of their own remuneration. The Committee also evaluates the time required of non-executive Directors to perform their duties.

The Company distinguishes the structure of non-executive Directors' remuneration from that of executive Directors and senior executives. Non-executive Directors' remuneration does not include any retirement benefits other than contributions to their nominated superannuation funds. Details of the respective remuneration structures are set out in Part 1 of the Remuneration Report on page 32 of this Annual Report.

Remuneration Report

The Remuneration Report is a part of the Directors' Report.

1. Remuneration Policies

Details of Nanosonics Limited's remuneration policies and practices, together with details of remuneration of Directors and Key Management Personnel (KMP), are set out below. For the purposes of this report KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company, directly or indirectly and include the five executives receiving the highest remuneration.

a) Overview of remuneration policies

Remuneration Philosophy

Nanosonics recognises that the quality and performance of directors, executives and staff are essential to achieving competitive advantage and a sustainable future. Our remuneration philosophy is to proactively attract, motivate and retain key talent in line with the following criteria:

- Business performance
- Sustainable growth in shareholder wealth
- Transparency of structures for earning rewards
- Individual performance recognition
- Labour market conditions
- Capacity to pay

Remuneration Committee

The Remuneration Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered.

The Remuneration Committee presently comprises two non-Executive Directors, Dr David Fisher (Chairman) and Mr Maurie Stang. The Chairman of the Remuneration Committee is required to be an independent Director who is not also Chairman of the Board.

The Remuneration Committee Charter, which is available from the Company's website, provides further information on the role of the Committee.

Objective of the Remuneration Policy

In consultation with external remuneration specialists, the Remuneration Committee ensures that rewards align with the achievement of strategic corporate objectives and the creation of value for shareholders, in line with current market practice.

The remuneration structure provides a mix of fixed and variable pay, with a blend of short and long-term incentives. The structure of non-executive and executive compensation is separate and distinct.

b) Directors

Non-Executive Directors are paid an annual fee for their services on the Board and Committees of the Board. The total annual fee payable to a non-Executive Director is determined on a total cost basis comprising cash, superannuation and securities. The aggregate amount of remuneration that may be paid to all non-Executive Directors and which may be divided among the non-Executive Directors in such a way as the Directors may determine is a maximum of $500,000 as approved at a general meeting of the Company on 19 September 2006. Non-Executive Directors do not receive any performance-related remuneration, options or shares.

The remuneration of the Chief Executive Officer, and any other Director appointed to an executive office, is fixed by the Directors. Executive Directors are eligible to participate in the Company's short-term incentive scheme and share-based compensation plans. Executive Directors are not separately remunerated for their positions as Directors.

Details of Directors' remuneration are set out in Part 5 of this report.

c) Advisory board

Members of the Advisory Board are paid an annual fee for their services. The fee is reviewed annually by the Directors. Executive members of the Advisory Board are not separately remunerated for their positions on the Advisory Board.

d) Executives

Executive pay structures consist of fixed and variable components, incorporating Short Term Incentives (STI) and Long Term Incentives (LTI) as follows:

Remuneration Component	Form of Settlement
Fixed remuneration	Base salary and statutory superannuation
Variable remuneration (STI)	Performance Bonus
Variable remuneration (LTI)	Share-based compensation specifically shares or options

Details of Key Management Personnel remuneration are set out in Part 5 of this report.

Fixed Remuneration

Fixed remuneration is part of the Total Employment Cost (TEC) package which may be provided as a combination of cash and non-financial benefits, at the executive's discretion.

Executives are offered a competitive fixed component of base pay inclusive of statutory superannuation contributions. Executive remuneration is reviewed on an annual basis by the Remuneration Committee. Part of this review includes an analysis of company and individual performance and external comparative remuneration benchmarking.

e) Short term incentive (STI) scheme

The Company has a short-term incentive scheme whereby senior executives and staff can earn cash payments varying from 5% to 25% of their fixed remuneration, subject to the achievement of certain defined key performance indicators and overall company performance.

f) Share-based compensation plans

The Company has three share-based compensation plans, each designed to fulfil aspects of the Company's remuneration policy directed to the attraction, motivation and retention of the experience and skills required for the achievement of strategic corporate objectives and the creation of value for shareholders. Summary details of each plan and how it operates are provided in section 3, Share-based compensation below. Specific details of each of the three share-based compensation plans are available on the Company's website.

At the date of this report, the Company is conscious of impending changes to enabling legislation which may result in its current share-based compensation plans requiring amendment or replacement. Wherever practicable, the Company intends to continue to include share-based compensation in its remuneration strategies.

2. Service Agreements

On appointment to the Board, all non-executive Directors enter into a service agreement with the Company in the form of a letter of appointment which summarises the Board policies and terms, including compensation, relevant to the office of Director. A copy of the letter is available on the Company's website. Remuneration and other terms of employment for the CEO, CFO and Key Management Personnel are formalised in employment agreements. Each of these agreements provides for the provision of performance-related cash bonuses and participation, when eligible, in the share-based compensation plans. All employment contracts for Key Management Personnel may be terminated by either party with three months' notice, except in the case of the CEO, where the Company is required to give six months' notice of termination.

3. Share-based compensation

The Company has three share-based compensation schemes designed to provide long-term incentives for executives and certain employees to deliver long-term shareholder returns. The schemes are:

- Employee Share Option Plan ("ESOP")
- Exempt Employee Share Plan ("EESP")
- Deferred Employee Share Plan ("DESP")

3.1 Nanosonics Employee Share Option Plan ("ESOP").

The establishment of the Nanosonics Employee Share Option Plan (ESOP) was approved by the Directors on 2 April 2007. The ESOP is designed to provide long-term incentives to deliver long-term shareholder returns. All employees and executive directors are eligible to participate in the ESOP. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue. Under the plan, participants are granted options for no consideration which vest in three equivalent tranches on each of the first three anniversaries of the date of issue. The options expire on the fourth such anniversary. The exercise price of options is determined by the Board at the time of issue. Options vest and become exercisable at the end of each vesting period. The ESOP requires the holder to be an employee of the Company at the time vested options are exercised, except that they may be exercised up to 30 days after voluntary termination of employment. When exercisable, each option is convertible into one ordinary share which ranks equally with any other share on issue in respect of dividends and voting rights.

Remuneration Report

3.2 Nanosonics Employee Share Plans ("EESP" & "DESP")

The Company has two Employee Share Plans, being the Exempt Employee Share Plan ("EESP") and the Deferred Employee Share Plan ("DESP").

Adoption of the EESP and DESP was approved at a general meeting of shareholders on 26 November 2007 and the approval is for a period of 3 years ending 26 November 2010. Shareholder approval was also granted on 26 November 2007 to enable the Company to grant financial assistance under both the EESP and the DESP in accordance with the *Corporations Act 2001*.

The issue price for shares granted is calculated as the 5-day weighted average market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the shares were granted. The fair value of shares granted is taken to be the issue price.

In any one financial year, employees, including Directors, may participate in only one of the EESP and DESP to the exclusion of the other.

Nanosonics Exempt Employee Share Plan ("EESP")

The EESP enables eligible employees, including Directors, to acquire up to $1,000 worth of Nanosonics shares each year on a tax-exempt basis in accordance with enabling tax legislation. As a contemporary company the Board believes allowing employees to acquire equity in the Company on tax-preferred terms should be encouraged.

No shares have been issued under the EESP to the date of this report.

Nanosonics Deferred Employee Share Plan ("DESP")

The DESP allows invited eligible employees, including Directors, to receive Nanosonics shares as a bonus or incentive or as remuneration sacrifice and, subject to certain conditions and impending changes to legislation, not to pay tax for up to 10 years on the benefit in accordance with enabling tax legislation. The DESP is designed to allow the Company to meet contemporary executive equity incentive practices.

Shares were issued under the DESP during the financial year.

Details of share-based compensation included in Director and Key Management Personnel remuneration are set out on page 71 and in Note 32 to the Financial Report.

4. Directors and Key Management Personnel

All the Directors and Key Management Personnel named is this report held office throughout the years ended 30 June 2009 and 30 June 2008, except for:

Directors

David Radford – Executive Director and CEO (appointed 16 June 2008)

Ron Weinberger – Executive Director (appointed a Director 2 July 2008, has held executive office since 9 August 2004)

William Widin – Non-executive Director (resigned 5 February 2009)

David Slack – Non-executive Director (appointed 5 February 2009)

Geoff Marchall - Executive Director and CEO (resigned 14 December 2007)

Key Management Personnel

Arjang Safa – General Manager Manufacturing and Supply Chain (appointed 1 January 2008)

Rachael Moore – General Manager Product Development (resigned 3 April 2009)

Ole Stockhausen – General Manager Global Marketing and Business Development (resigned 18 May 2009)

John Murtagh – General Manager Business Systems and Regulatory Affairs (resigned 26 June 2009)

Jianhe Chen - Quality Assurance Manager (appointed 20 July 2009)

5. Remuneration of Directors and Key Management Personnel

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the five highest remunerated Company executives are set out below. No Directors or Key Management Personnel were remunerated by any other company in the Group. The aggregate remuneration for Non-Executive Directors for the current financial year was within the aggregate amount of $500,000 approved at a general meeting of the Company on 19 September 2006.

Directors		Primary			Post-employment	Equity compensation	Other compensation	Total	Proportion of remuneration performance related %	Value of shares and options as proportion of remuneration %	Short term incentive bonus	
		Salary and fees	STI cash bonus (a)	Non monetary benefits	Superannuation benefits	Value of shares and options (Section 6)	Termination benefits				Vested in year %	Forfeited in year (b) %
Non-Executive Directors												
Maurie Stang	2009	50,007						$50,007				
	2008	50,004						$50,004				
David Fisher[1]	2009	36,386			3,274			39,660				
	2008	93,202			8,281			$101,483				
William Widin[2]	2009	20,451			1,829			$22,280				
	2008	37,727			3,395			$41,122				
David Slack[3]	2009	12,702			1,143			$13,845				
	2008	-			-							
Executive Directors												
David Radford[4]	2009	232,375	48,153		16,574	14,092		$311,194	25.0%	4.5%	100%	0%
	2008	5,235			471	-		$5,706	0.0%	0.0%	0%	0%
Ron Weinberger[5]	2009	155,963	28,687		16,393	93,838		$294,881	22.5%	31.8%	100%	0%
	2008	156,779	33,108		12,570	84,275		$286,732	20.0%	29.4%	100%	0%
Geoff Marshall[6]	2009											
	2008	118,730	24,000		9,492	(25,764)	79,619	$206,077	19.0%	29,4%	80%	20%
Key Management Personnel												
Ole Stockhausen[7]	2009	79,204		11,263	7,102	5,310		$102,879	22.5%	0.0%	0%	100%
	2008	129,682	29,430		11,179	43,054		$213,345	21.0%	20.2%	100%	0%
Rachael Moore[8]	2009	54,707	19,760		4,923	(18,005)	36,431	$97,816	13.0%	0.0%	100%	0%
	2008	129,500	29,430		11,175	23,085		$193,190	21.0%	11.9%	100%	0%
John Murtagh[9]	2009	142,857	17,325		14,274	(20,509)		$153,947	15.0%	13.3%	100%	100%
	2008	127,839	25,296		10,846	21,085		$185,066	18.0%	11.4%	100%	0%
Chris Grundy	2009	161,827	27,387		13,745	41,106		$244,065	22.5%	16.8%	100%	0%
	2008	150,636	40,772		13,820	30,867		$236,095	22.5%	13.1%	100%	0%
Arjang Safa[10]	2009	159,228	26,149		14,315	44,635		$244,327	22.5%	18.3%	100%	0%
	2008	73,183	2,538		5,501	34,395		$115,617	3.0%	29.7%	100%	0%

(a) Amounts included in remuneration under the Short Term Incentive (STI) Scheme comprise amounts that vested in the financial year based on achievement of personal goals and specified performance criteria set out in Part 1. Certain amounts may vest in future financial years in respect of the STI scheme for the current financial year.

(b) Amounts forfeited in the financial year relate to personal key performance indicators that were not achieved in the year.

1 David Fisher's 2008 remuneration includes fees amounting to $77,775 for acting as Executive Director for the period December 2007 to June 2008.

2 William Widin resigned on 5 February 2009.

3 David Slack was appointed on 5 February 2009.

4 David Radford was appointed on 16 June 2008.

5 Ron Weinberger was appointed a Director on 2 July 2008. His 2008 remuneration is as part of Key Management Personnel.

6 Geoff Marshall resigned on 14 December 2007. All options previously granted had not vested at that date and these lapsed.

7 Ole Stockhausen resigned on 18 May 2009. All options not vested or exercised within 30 days of that date lapsed.

8 Rachael Moore resigned on 3 April 2009. All options not vested or exercised within 30 days of that date lapsed.

9 John Murtagh resigned on 26 June 2009. All options not vested or exercised within 30 days of that date lapsed.

10 Arjang Safa was appointed on 1 January 2008

6. Fair value of share-based compensation

Shares

The issue price for shares granted during the year is calculated as the 5-day weighted average market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the shares were granted. The fair value of shares granted during the year is taken to be the issue price. This amount is allocated to remuneration in the period the shares are granted, unless the shares have a vesting condition, in which case this amount is allocated to remuneration evenly over the vesting period and a share based payments reserve is created as part of shareholders' equity.

Options

The fair value of options granted during the year is the value calculated at grant date. A share based payments reserve is created as a part of shareholders' equity. Using a Black-Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options market conditions have been taken into account in both the current and prior periods. Comparative information is not restated as market conditions were already included in the valuation.

The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the options.

The value of options which lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes model with no adjustments for whether the performance criteria have or have not been achieved.

The following factors and assumptions were used in determining the fair value on grant date of options granted to Directors and Key Management Personnel which were unexpired on 30 June 2009:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Value of option
ESOP	26 June 2009	26 Jun 2013	$0.410	$0.345	59.06%	5.32%	$0.226
ESOP	17 June 2009	17 Jun 2013	$0.410	$0.30	58.75%	5.01%	$0.299
ESOP	19 Nov 2008	19 Nov 2012	$0.190	$0.30	51.58%	4.24%	$0.876
ESOP	30 Nov 2007	30 Nov 2011	$0.715	$0.75	46.02%	6.27%	$0.301
ESOP	17 July 2007	17 July 2011	$0.690	$0.75	45.73%	6.40%	$0.280
ESOP	17 April 2007	17 April 2011	$0.375[11]	$0.75	45.73%	6.17%	$0.155
ESOP	17 April 2007	17 April 2011	$0.375[11]	$0.20	45.73%	6.17%	$0.355

11 The grant date of the options preceded the Company's admission to the Australian Securities Exchange on 17 May 2007 and an estimated share price at grant date has been applied.

7. Share-based compensation granted as remuneration

Shares granted

Shares granted as long-term incentive remuneration under the Company's Deferred Employee Share Plan (DESP) to each Director and each of the Key Management Personnel are detailed below.

	Share plan, issue price	Number granted	Date granted	Number vested	Number forfeited	Number vesting in future financial years[11]		
						2010	2011	2012
Directors								
David Radford	DESP@$0.425	5,880	June 2009	5,880	–	–	–	–
	DESP@$0.288	23,237	Mar 2009	23,237	–	–	–	–
Ron Weinberger	DESP@$0.425	75,000[13]	June 2009	–	–	25,000	25,000	25,000
	DESP@$0.288	33,203	Mar 2009	33,203	–	–	–	–
Key Management Personnel								
John Murtagh[4]	DESP@$0.288	20,052	Mar 2009	20,052	–	–	–	–
Chris Grundy	DESP@$0.425	5,880	June 2009	5,880	–	–	–	–
	DESP@$0.288	26,875	Mar 2009	26,875	–	–	–	–
Arjang Safa	DESP@$0.425	5,880	June 2009	5,880	–	–	–	–
	DESP@$0.288	33,203	Mar 2009	33,203	–	–	–	–

Options granted

The vesting profiles as at 30 June 2009 of options granted under the Company's Employee Share Option Plan (ESOP) and General Share Option Plan (GSOP) as long-term incentive remuneration to each Director and each of the Key Management Personnel are detailed below.

	Option Plan, exercise price	Number granted	Date granted	Number vested	Number exercised	Number forfeited	Number vesting in future financial years[12]		
							2010	2011	2012
Directors									
David Slack	GSOP@$0.30	50,000	Nov 2008	–	–	–	16,500	16,500	17,000
David Radford	ESOP@$0.30	500,000	June 2009	–	–	–	165,000	165,000	170,000
	ESOP@$0.30	500,000	Nov 2008	165,000	–	–	165,000	170,000	–
Ron Weinberger	ESOP@$0.75	175,000	April 2007	115,500	–	–	59,500	–	–
	ESOP@$0.20	1,000,000	April 2007	660,000	–	–	340,000	–	–
Key Management Personnel									
Ole Stockhausen[15]	ESOP@$0.75	125,000	April 2007	82,500	–	125,000	–	–	–
	ESOP@$0.20	500,000	April 2007	330,000	330,000	170,000	–	–	–
Rachael Moore[16]	ESOP@$0.75	290,000	April 2007	95,700	–	290,000	–	–	–
	ESOP@$0.20	200,000	April 2007	66,000	66,000	134,000	–	–	–
John Murtagh[14]	ESOP@$0.75	290,000	April 2007	191,400	–	290,000	–	–	–
	ESOP@$0.20	175,000	April 2007	115,500	115,500	59,500	–	–	–
Chris Grundy	ESOP@$0.345	100,000	June 2009	–	–	–	33,000	33,000	34,000
	ESOP@$0.75	250,000	July 2007	82,500	–	–	82,500	85,000	–
Arjang Safa	ESOP@$0.345	350,000	June 2009	–	–	–	115,500	115,500	119,000
	ESOP@$0.75	80,000	Nov 2007	26,400	–	–	26,400	27,200	–

12 In terms of the rules of the DESP and ESOP, shares and options will vest only if the holder is an employee of the Group on the vesting date. All options expire on the fourth anniversary of the grant date.

13 Shares issues to Ron Weinberger as part of the Company's long term incentive plans. The shares vest in three equal tranches annually commencing 26th June 2010 and are forfeitable if the holder ceases employment before the vesting date.

14 John Murtagh resigned on 26 June 2009. All options not vested or exercised within 30 days of that date were forfeited.

15 Ole Stockhausen resigned on 18 May 2009. All options not vested or exercised within 30 days of that date were forfeited.

16 Rachael Moore resigned on 3 April 2009. All options not vested or exercised within 30 days of that date were forfeited.

8. Movements in share-based compensation

Shares

Details of shares granted as incentive remuneration to each Director of the Company and each of the other Key Management Personnel named are detailed below.

Shares		Value of shares	
		Granted in year $	Forfeited in year[17] $
Directors			
David Radford	2009	9,192	–
	2008	–	–
Ron Weinberger	2009	41,445	–
	2008	–	–
Key Management Personnel			–
John Murtagh[21]	2009	5,775	–
	2008	–	–
Chris Grundy	2009	10,240	–
	2008	–	–
Arjang Safa	2009	12,062	–
	2008	–	–

Options

Details of the movement during the reporting period, by value, of options granted as long-term incentive remuneration to each Director of the Company and each of the other Key Management Personnel named are detailed below.

Options		Value of options		
		Granted in year (a) $	Exercised in year $	Forfeited in year[16] $
Directors				
David Slack	2009	2,938	–	–
	2008	–	–	–
David Radford	2009	179,916	–	–
	2008	–	–	–
Ron Weinberger	2009	–	–	–
	2008	–	–	–
Geoff Marshall[18]	2009			
	2008	–	–	25,764
Key Management Personnel				
Ole Stockhausen[19]	2009	–	58,850	37,744
	2008	–	–	–
Rachael Moore[20]	2009	–	7,920	41,090
	2008	–	–	–
John Murtagh[21]	2009	–	34,755	47,369
	2008	66,650	–	–
Chris Grundy	2009	22,300	–	–
	2008	70,000	–	–
Arjang Safa	2009	78,049	–	–
	2008	24,086	–	–

17 In terms of the rules of the DESP and ESOP, shares and options will vest only if the holder is an employee of the Group on the vesting date.
18 Geoff Marshall resigned on 14 December 2007. All options not vested or excercised within 30 days of that date were forfeited.
19 Ole Stockhausen resigned on 18 May 2009. All options not vested or exercised within 30 days of that date were forfeited.
20 Rachael Moore resigned on 3 April 2009. All options not vested or exercised within 30 days of that date were forfeited.
21 John Murtagh resigned on 26 June 2009. All options not vested or exercised within 30 days of that date were forfeited.
a The total value of options granted in the year is shown in the table above. This amount is assessed and allocated to remuneration over the vesting period.

Auditor's Independence Declaration

UHY Haines Norton
Chartered Accountants

Nanosonics Limited and its controlled Entity
ABN 11 095 076 896
Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001
To the Directors of Nanosonics Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 there has been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

UHY Haines Norton

M. D. Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 12 August 2009

UHY Haines Norton - ABN 85 140 758 156 NSWBN 98 133 826
Level 11, 1 York Street Sydney NSW 2000
GPO Box 4137 Sydney NSW 2001
t + 61 2 9256 6600
f + 61 2 9256 6611
e sydney@uhyhn.com.au
w www.uhyhainesnorton.com.au

INTELLIGENT CHOICE • INTELLIGENT SOLUTIONS

Income statements

For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Revenue					
Sales	6	309		309	
Cost of Sales		(121)		(121)	
Gross profit		188		188	
Other Income					
Government grants		150	1,112	150	1,112
Interest income		1,194	1,943	1,194	1,943
Total Revenue	7	1,344	3,055	1,344	3,055
Operating expenses					
Staffing costs		5,098	4,639	5,038	4,626
Intellectual Property		210	594	210	594
Quality & Regulatory Management		159	356	159	356
Business Development		630	390	912	463
Premises Plant & Equipment		1,035	794	998	779
External Consultants & Advisors		1,885	2,166	1,777	2,142
Other operating costs		1,269	1,263	1,192	1,242
Total Operating expenses		**10,286**	**10,202**	**10,286**	**10,202**
Operating (loss) before income tax expense		**(8,754)**	**(7,147)**	**(8,754)**	**(7,147)**
Income tax expense	9	–	–	–	–
Net loss after income tax expense attributable to members of the parent entity		**(8,754)**	**(7,147)**	**(8,754)**	**(7,147)**

(Loss) per share for losses attributable to ordinary shareholders of the Company:		Cents	Cents
Basic (loss) per share	31	(4.5)	(3.7)
Diluted (loss) per share	31	(4.3)	(3.4)

The income statements should be read in conjunction with the accompanying notes forming part of these financial statements.

Balance sheets

As at 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Current assets					
Cash assets	10	13,881	24,225	13,876	24,217
Receivables	11	468	121	442	109
Inventories	12	919	–	919	–
Other	13	169	209	148	196
Total current assets		**15,437**	**24,555**	**15,385**	**24,522**
Non-current assets					
Investments in controlled entities	14	–	–	40	40
Property, plant and equipment	15	1,856	1,077	1,840	1,066
Intangible assets	16	198	–	198	–
Other	17	91	–	69	–
Total non-current assets		**2,145**	**1,077**	**2,147**	**1,106**
Total assets		**17,582**	**25,632**	**17,532**	**25,628**
Current liabilities					
Payables	18	933	756	894	753
Provisions	19	337	317	329	317
Total current liabilities		**1,270**	**1,073**	**1,223**	**1,070**
Non-current liabilities					
Total-non current liabilities		**–**	**–**	**–**	**–**
Total liabilities		**1,270**	**1,073**	**1,223**	**1,070**
Net assets		**16,312**	**24,559**	**16,309**	**24,558**
Equity					
Contributed equity	20	41,425	41,150	41,425	41,150
Reserves		805	734	802	733
Accumulated (losses)		(25,918)	(17,325)	(25,918)	(17,325)
Total equity		**16,312**	**24,559**	**16,309**	**24,558**

The balance sheets should be read in conjunction with the accompanying notes forming part of these financial statements.

Statements of changes in equity

For the year ended 30 June 2009

Consolidated	Issued Capital Note 20 $'000	Share based payments reserve Note 21 $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
At 1 July 2007	**40,998**	**527**	**–**	**(10,208)**	**31,317**
Loss for the year				(7,147)	(7,147)
Shares issued	–				–
Share issue cost	(23)				(23)
Share options expensed		236			236
Share options exercised	175				175
Share options lapsed		(30)		30	–
Other reserves			1		1
At 30 June 2008	**41,150**	**733**	**1**	**(17,325)**	**24,559**
Loss for the year				(8,754)	(8,754)
Shares issued	140	32			172
Share issue cost	13				13
Share options expensed		198			198
Share options exercised	122	(71)		71	122
Share options lapsed		(90)		90	–
Other reserves			2		2
At 30 June 2009	**41,425**	**802**	**3**	**(25,918)**	**16,312**

Parent	Issued Capital Note 20 $'000	Share based payments reserve Note 21 $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
At 1 July 2007	40,998	527	–	(10,208)	31,317
Loss for the year				(7,147)	(7,147)
Shares issued					
Share issue cost	(23)				(23)
Share options expensed		236			236
Share options exercised	175				175
Share options lapsed		(30)		30	–
Other reserves			–		–
At 30 June 2008	41,150	733	–	(17,325)	24,558
Loss for the year				(8,754)	(8,754)
Shares issued	140	32			172
Share issue cost	13				13
Share options expensed		198			198
Share options exercised	122	(71)		71	122
Share options lapsed		(90)		90	
Other reserves					
At 30 June 2009	41,425	802	–	25,918	16,309

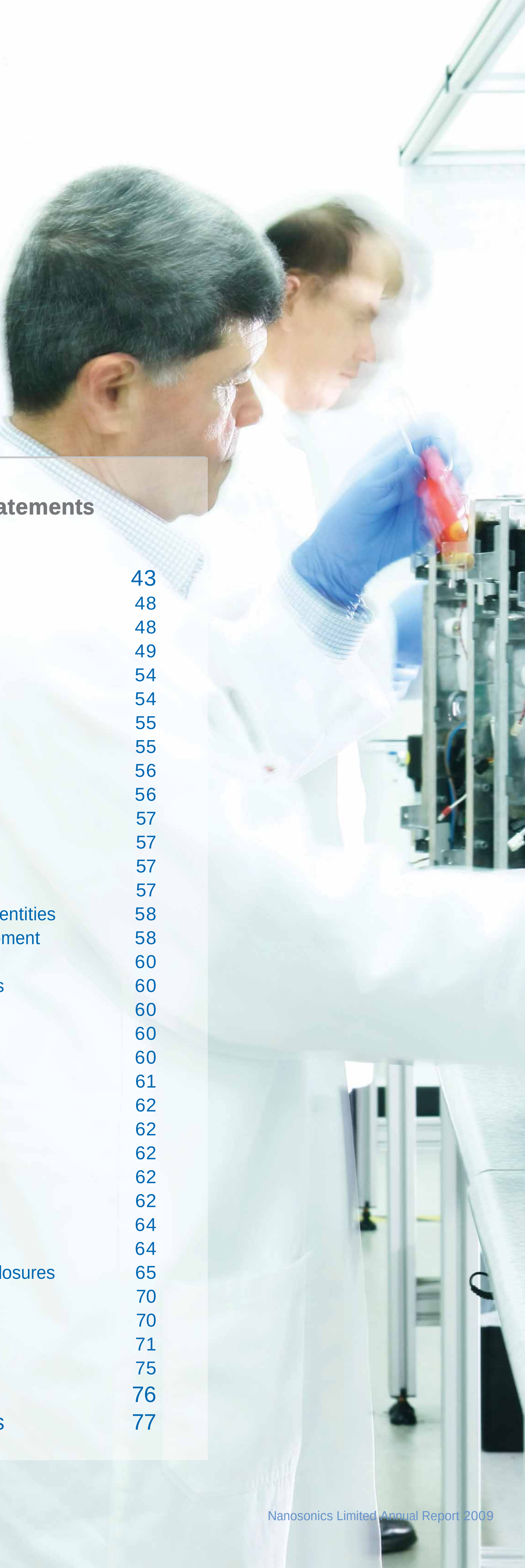
The statement of changes in equity should be read in conjunction with the accompanying notes forming part of these financial statements.

Cash flow statements

For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Cash flows from operation activities					
Receipts from customers		75	–	75	–
Receipts from government grants		150	1,381	150	1,381
Payments to suppliers and employees		(10,994)	(10,200)	(10,984)	(10,180)
Interest received		1,633	1,684	1,633	1,684
Net cash (used in) operating activities	**30(b)**	**(9,136)**	**(7,135)**	**(9,126)**	**(7,115)**
Cash flows from investing activities					
Purchase of assets		(1,195)	(368)	(1,183)	(355)
Purchase of intangibles		(201)	–	(201)	–
Acquisition of subsidiary		–	–	–	(40)
Net cash (used in) investing activities		**(1,396)**	**(368)**	**(1,384)**	**(395)**
Cash flows from financing activities					
Proceeds from issue of shares and options		122	151	122	151
Payments for issue of shares and options		–	(331)	–	(331)
Capital raising costs recovered		12	–	12	–
Loan payment to subsidiary		–	–	(16)	–
Proceeds from loans repaid		51	–	51	–
Net cash provided by (used in) financing activities		**185**	**(180)**	**169**	**(180)**
Net increase (decrease) in cash held		(10,347)	(7,683)	(10,341)	(7,690)
Cash at the beginning of the financial year		24,225	31,907	24,217	31,907
Effects of exchange rate changes on cash and cash equivalents		3	1	–	–
Cash at the end of the financial year	10	13,881	24,225	13,876	24,217

The cash flow statements should be read in conjunction with the accompanying notes forming part of these financial statements.



Contents of the Notes to the financial statements

For the year ended 30 June 2009

1. Corporate information

The financial report on pages 43 to 46 covers Nanosonics Limited (the Company) as an individual parent entity and the consolidated entity consisting of Nanosonics Limited and its subsidiaries (the Group). The financial report is presented in the Australian currency.

Nanosonics Limited is a publicly listed company, limited by shares, incorporated and domiciled in Australia and listed on the Australian Securities Exchange Limited. The Company's registered office and principal place of business is:

Unit 24, 566 Gardeners Road
Alexandria, NSW 2015
Australia

A description of the nature of the Group's operations and its principal activities is included in the Review of Operations and Activities on pages 8 to 13 and in the Directors' Report on page 22, both of which are not part of this financial report.

The financial report was authorised for issue by the Directors on 19 August 2009. The Company has the power to amend and reissue the financial report.

2. Financial Risk Management

The Group is exposed to financial risks, predominantly interest rate risk, and it has a financial risk management program which seeks to minimise potential adverse effects on financial performance. The Board provides written principles for investment of the Group's cash reserves, so as to ensure operational liquidity whilst optimising interest earnings from a mix of instruments with one or more of Australia's four main banks. Risks associated with transactions in foreign currencies in the financial year were not considered to be significant. The Group has no borrowings.

The Group and the parent entity hold the following financial instruments:

Financial Assets	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Cash and cash equivalents	3,025	17,334	3,019	17,327
Fixed rate notes	3,012	–	3,012	–
Floating rate note	7,844	6,890	7,844	6,890
Receivables	468	121	426	109

The floating rate notes, issued by Australia and New Zealand Banking Group Limited and Westpac Banking Corporation, mature on 24 September 2010 and 18 September 2012. Interest is paid quarterly in a fixed margin of 0.32% and 0.42% above 90-day BBSW. The fixed rate note issued by National Australia Bank Limited matures on 15 September 2009. Interest is paid semi-annually in arrears at 5.75%.

Financial Liabilities	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Trade and other payables	933	756	894	753

The Groups' exposure to foreign currency risk at the reporting date comprised:

Foreign exchange risk	30 June 2009		30 June 2008	
	Euro €'000	USD$ $'000	Euro €'000	NZ$ $'000
Other receivables	22	–	–	–
Trade payables	(11)	(3)	(3)	(3)
Net investment in foreign operation	25	–	25	–

Credit risk

Credit risk arises from holdings in cash, cash equivalents, deposits and floating rate notes with banks. The Group invests only in deposits and floating rate notes offered by Australia's four main banks. Risks associated with credit transactions with customers in the financial year were not considered to be significant. The maximum exposure to credit risk as at the reporting date is the carrying amount of the financial assets as set out above. The carrying amount is determined according to the Group's accounting policies.

Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are invested in short and medium term instruments which are tradeable in highly liquid markets.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Nanosonics Limited as an individual entity and the Group consisting of Nanosonics Limited and its subsidiaries.

(a) Bases of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The financial report of Nanosonics Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention and do not take into account changes in money values.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies.

Assumptions and estimates which are significant to the financial statements are disclosed in Note 4

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Nanosonics Limited (''Company'' or ''parent entity'') as at 30 June 2009 and the results of all subsidiaries for the year then ended. Nanosonics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

A list of controlled entities is contained in Note 14 to the financial statements.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. In preparing the consolidated financial statements, all inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated in full.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Nanosonics Limited.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Nanosonics Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities are recognised in profit or loss a part of the fair value gain or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

The Group manufactures medical devices and sells medical devices and associated consumables to distributors.

Delivery to distributors does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the distributor and the distributor has accepted the products in accordance with the sales contract, or the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recognised when a Group entity has delivered products to the distributor, the distributor has full discretion over the channel and price to sell the products and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Sales are recorded based on the prices specified in the sales contracts net of any discounts and returns at the time of sale. No element of financing is deemed to be present as the sales are made with credit terms which are consistent with practices in each market.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(f) Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(g) Income Tax – Note 9

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses and on the assumption that no adverse change will occur in income tax legislation enabling the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Nanosonics Limited and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation and formed a tax consolidated group from 1 July 2005.

The head entity, Nanosonics Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Nanosonics Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group has no finance leases, where the Group, as lessee, has substantially all the risks and rewards of ownership.

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments presented at market value that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade Receivables

Trade receivables, which generally have 30 to 60 day credit terms, are recognised at fair value less provision for impairment. The collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade receivables account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment loss is recognised in the income statement with other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(k) Inventories

Raw materials, starting components, consumable stores, work in progress and finished goods are stated at the lower of cost and net realisable value.

Costs of purchased inventory are determined to be actual costs on a batch basis, after including import duties, taxes (other than those subsequently recoverable by the entity), transport, handling and other costs directly attributable to the acquisition of the inventory, and after deducting rebates and discounts.

Costs of work in progress and finished goods comprise purchased materials at cost, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Investments and other financial assets

Investments in controlled entities are carried in the Company’s financial statements at the lower of cost and recoverable amount.

The Group classifies its financial assets in the following categories: cash and cash equivalents, cash term investments and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

Cash term investments are financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the ability to hold to maturity. Cash term investments which are highly liquid irrespective of their maturity dates are classified as current assets as they may not necessarily be held by the Company for their full term.

At each balance date the Group assesses whether there is objective evidence that a financial asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss previously recognised in profit or loss, is recognised in the income statement

(m) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate assets is derecognised when it is replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred. Production tooling used to manufacture component parts qualifies as property, plant and equipment when the Company expects to use it during more than one period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(n) Depreciation

Useful lives

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives, taking into account residual values. The assets' residual values, useful lives and depreciation methods are reviewed prospectively and adjusted if appropriate at least annually. Depreciation is expensed. The depreciation rates or useful lives used for each class of assets are as follows:

	2009	2008
Depreciation of Property, plant and equipment		
Laboratory fit-out	6 years	6 years
Laboratory and Manufacturing equipment	5 years	5 years
Office furniture and equipment	7 years	7 years
Computer equipment and software	3 years	3 years
Leasehold improvement	Lease term	Lease term

(o) Intangible assets

(i) Research and Development

Research and development expenditure is expensed as incurred except that costs incurred on development projects, relating to the design and testing of new or improved products, are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises directly attributable costs, including costs of materials and,- services. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development expenditure which has a finite life is recorded as an intangible asset from the point at which the asset is ready for use and amortised on a straight-line basis over the period during which the related benefits are expected to be realised.

(ii) Patents and Trademarks

The costs of registering and protecting patents and trademarks are expensed as incurred.

(p) Impairment of assets

Intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(r) Provisions

Provisions for legal claims, service warranties and other obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reasonably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used is to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. An increase in the provision due to the passage of time is recognised as interest expense.

Provision for warranties

Provision is made in respect of the Group's estimated liability on all products under warranty at balance date. The provision is measured at current values estimated to be required to settle the warranty obligation. The provision is included in Current Liablilities - other payables.

(s) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits, including wages, salaries and non-monetary benefits, and accumulating annual and other leave, represent present obligations resulting from employees' services provided to reporting date. Employee benefits have been measured at the amounts expected to be paid when the liability is settled and are recognised in the provision for employee benefits.

Long service leave

The liability for long-service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Share-based compensation

Share-based compensation benefits are provided to employees via the Nanosonics share-based compensation plans. Information relating to the plans is set out in the Remuneration Report on page 33.

Share option plans

The assessed fair value on the date options are granted is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. In valuing options market conditions are taken into account in both the current and prior periods. Comparative information is not restated as market conditions were already included in the original valuation.

General Share Option Plan (GSOP)

The assessed fair values of options granted under the GSOP are expensed in full in the month in which they are granted with a corresponding increase in a share based payments reserve as part of shareholders' equity, except where the options are granted as part of a capital raising programme, in which case no cost is recognised.

Employee Share Option Plan (ESOP)

The fair value of options granted under the ESOP is recognised as an employee benefit expense with a corresponding increase in equity.

The assessed fair value of ESOP options granted is apportioned on a straight line monthly basis over the period between grant date and the date on which the options all vest. At the end of a period the Company assesses the probability of achievement of a benefit, being the percentage probability that employees will achieve a benefit if the options are exercised. The value of ESOP options expensed in any period is calculated as that portion of the assessed fair value applicable to the period factored by the probability of achievement and a share based payments reserve is created as part of shareholders' equity.

The value of ESOP options exercised is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options are exercised after deducting the price paid to exercise the options. The value so derived is transformed within shareholders' equity, from the share based payments reserve to accumulated profits /(losses).

The value of ESOP options which lapse represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes model with no adjustments for whether the performance criteria have or have not been achieved. The value so derived is transformed within shareholders' equity, from the share based payments reserve to accumulated profits /(losses).

Deferred Employee Share Plan (DESP)

The issue price of DESP shares granted during the year is calculated as the 5-day weighted average market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the shares are granted. The fair value of DESP shares granted is taken to be the issue price.

The assessed fair values of DESP shares are expensed in full in the month in which they are granted with a corresponding increase in equity, except if they are granted with a vesting condition, in which case the fair value of DESP shares granted is apportioned on a straight line monthly basis over the period between grant date and the date on which the shares all vest. At the end of a period the Company assesses the probability of achievement of a benefit, being the percentage probability that employees will achieve at least the fair value of the unvested shares. The value of DESP shares with vesting conditions expensed in any period is calculated as that portion of the fair value applicable to the period factored by the probability of achievement and a share based payments reserve is created as part of shareholders' equity.

Bonuses

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged and where there is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement or end of employment contract date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(t) Contributed 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.

(u) Earning per share

(i) Basic earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to equity holders of the Company for the reporting period, by the weighted average number of ordinary shares of the Company outstanding during the financial year.

(ii) Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Goods and services tax (GST), Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of associated GST or VAT as applicable, unless the GST/VAT incurred is not recoverable from the taxation authority, in which case, the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included with other current receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(w) Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting period ended 30 June 2009 and these have not yet been adopted by the Group. Where applicable the Group will apply the revised standards and interpretations prospectively with effect from 1 July 2009. The new accounting standards and interpretations which are likely to affect the Group with effect from 1 July 2009 are set out below. None is expected to have a significant effect on the way the Group accounts for and presents its financial results.

(i) AASB 8 Operating Segments and AASB 2207-3 Amendments to Australian Accounting Standards arising from AASB 8.

(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101.

(iii) AASB 2008-1 Amendments to Australian Accounting Standards – Share-based payments: Vesting Conditions and Cancellations.

(iv) AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.

(v) AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation.

(vi) AASB 2008-8 Amendment to IAS 39 Financial Instruments Recognition and Measurement.

4. Critical accounting estimates and judgements

Estimates and associated assumptions and judgments affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities and are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. 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 that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about areas of critical accounting estimates and assumptions and about critical judgements in applying accounting policies which affect the amounts recognised in the financial statements is described in Note 3.

5. Segment reporting

Business segment

The primary activity of the Group is the research, development and commercialisation of infection control and decontamination products and related technologies. The Group operates in a single business segment, being the healthcare equipment segment.

Geographical segments

Geographically, the Group operates in the Australian and European markets. Australia is the home country of the parent entity. Operations in Europe commenced in August 2007.

	Australia		Europe		Adjustments		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	1,653	3,055	618	227	(618)	(227)	1,653	3,055
Expenses	(10,284)	(10,202)	(618)	(227)	618	227	(10,284)	(10,202)
Net (loss) before tax	**(8,752)**	**(7,147)**	**–**	**–**	**–**	**–**	**(8,752)**	**(7,147)**
Income tax expense	–	–	–	–	–	–	–	–
Net (loss) after tax	**(8,752)**	**(7,147)**	**–**	**–**	**–**	**–**	**(8,752)**	**(7,147)**
Segment Assets	17,524	25,589	106	43	(16)	–	17,614	25,632
Acquisitions of non-current segment assets	1,384	355	12	13	–	–	1,396	368

Notes to and forming part of the segment information

Accounting Policies

Segment information is prepared in conformity with the accounting policies of the entity as set out in Note 2 and Accounting Standard AASB 114 *Segment Reporting.*

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment. While most assets can be directly attributed to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment assets and liabilities do not include income taxes.

Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms-length" basis and are eliminated on consolidation.

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000

6. Revenue

Sales of goods		309	–	309	–

7. Other income

Government grants		150	1,112	150	1,112
Interest income		1,194	1,943	1,194	1,943
		1,344	**3,055**	**1,344**	**3,055**

Government grants comprise payments under the Commercial Ready scheme and the Export Market Development scheme. There were no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other form of government assistance.

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000

8. Loss before income tax expense

The loss from ordinary activities before income tax includes:

Expenses

Depreciation and amortisation	419	241	412	238
Research and development costs	3,435	2,353	3,435	2,353
Rental expenses relating to operating leases	326	207	297	197
Share options expense	230	236	230	236

In accordance with AASB 138 Intangible Assets, the Company has capitalised certain development costs as an intangible asset subject to amortisation – refer to Note 16 to these Financial Statements.

9. Taxation

(a) Income tax expense

Loss from ordinary activities	8,754	7,147	8,754	7,147
The prima facie income tax benefit applicable to the operating profit (loss) is calculated at 30% (2008:30%)	2,626	2,144	2,626	2,144
Sundry items	–	–	–	–
Future income tax benefit not booked	2,626	2,144	2,626	2,144
Income tax attributable to operating loss	–	–	–	–

(b) Deferred tax assets

Deferred tax assets not taken to account

The potential deferred tax assets in a controlled entity, which is a company, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is no virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

Estimated tax losses carried forward	25,996	17,568	25,996	17,568

The potential future income tax benefit of 30% of tax losses carried forward will only be obtained if:

(i) the Company and the Group derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised

(ii) the Company and the Group continue to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Company and the Group is realising the benefit

10. Current Assets – Cash and cash equivalents

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent entity 2009 $'000	Parent entity 2008 $'000
Cash at bank and on hand		95	269	91	261
Deposits on call		2,930	7,777	2,930	7,777
Term Deposits		–	9,289	–	9,289
Floating Rate Note		7,844	6,890	7,844	6,890
Fixed Rate Notes		3,012	–	3,012	–
		13,881	**24,225**	**13,876**	**24,217**

Cash term investments which are highly liquid irrespective of their maturity dates are classified as current assets at market value as they may not necessarily be held by the Company for their full term.

The Group's and the parent entity's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

11. Current Assets – Trade and other receivables

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent entity 2009 $'000	Parent entity 2008 $'000
Trade receivables		254	–	254	–
GST receivable		167	109	167	109
VAT receivable		33	9	–	–
Receivable from subsidiary		–	–	16	–
Other receivables		14	3	5	–
		468	**121**	**442**	**109**

Information about the Group's and the parent entity's exposure to foreign currency risk in relation to trade and other receivables is provided in Note 2.

Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

12. Current Assets – Inventories

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent entity 2009 $'000	Parent entity 2008 $'000
Raw materials and stores – at cost		658	–	658	–
Work in progress – at cost		66	–	66	–
Finished goods – at cost		195	–	195	–
		919	**–**	**919**	**–**

Inventories taken to operating expense during the year ended 30 June 2009 amounted to $46 (2008 – $nil)

Write-downs of inventories to net realisable values during the year ended 30 June 2009 amounted to $58 (2008 – $nil). The expense has been included in raw materials and consumables used in the income statement.

13. Current Assets – Other

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent entity 2009 $'000	Parent entity 2008 $'000
Prepayments		107	73	86	73
Interest income receivable		62	23	62	23
Deposits and bonds		–	68	–	55
Loan		–	45	–	45
		169	**209**	**148**	**196**

14. Non-Current Assets – Investments in controlled entities

	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent entity 2009 $'000	Parent entity 2008 $'000
Investments in controlled entities	–	–	40	40

These financial assets are carried at cost.

Particulars of controlled entities are:

			Equity holding	
Name of controlled entity	Country of incorporation	Class of shares	2009	2008
Nanosonics Europe GmbH	Germany	Ordinary	100%	100%
Saban Ventures Pty Limited	Australia	Ordinary	100%	100%

15. Non-Current Assets – Property plant and equipment

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Laboratory fit-out				
At cost	343	326	343	326
Accumulated depreciation	(321)	(315)	(321)	(315)
	22	**11**	**22**	**11**
Laboratory equipment				
At cost	228	221	228	221
Accumulated depreciation	(166)	(125)	(166)	(125)
	62	**96**	**62**	**96**
Office furniture & equipment				
At cost	737	696	711	684
Accumulated depreciation	(441)	(301)	(430)	(299)
	296	**395**	**280**	**385**
Leasehold improvements				
At cost	429	324	429	324
Accumulated depreciation	(160)	(34)	(160)	(34)
	269	**290**	**269**	**290**
Manufacturing equipment				
At cost	1,036	286	1,036	286
Accumulated depreciation	(76)	–	(76)	–
	960	**286**	**960**	**286**
Computer equipment & software				
At cost	275	–	275	–
Accumulated depreciation	(28)	–	(28)	–
	247	**–**	**247**	–
Total plant and equipment net book value	**1,856**	**1,077**	**1,840**	**1,066**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000

Reconciliations of the carrying amounts for each class of plant and equipment are set out below.

Laboratory fit-out				
Carrying amount at beginning of year	11	48	11	48
Additions	17	–	17	–
Disposals	–	–	–	–
Depreciation	(6)	(37)	(6)	(37)
Carrying amount at end of year	**22**	**11**	**22**	**11**
Laboratory equipment				
Carrying amount at beginning of year	96	90	96	90
Additions	8	36	8	36
Disposals	–	–	–	–
Depreciation	(42)	(30)	(42)	(30)
Carrying amount at end of year	**62**	**96**	**62**	**96**
Office furniture & equipment				
Carrying amount at beginning of year	395	405	385	405
Additions	40	154	27	141
Disposals	–	(2)	–	(2)
Depreciation	(139)	(161)	(132)	(159)
Carrying amount at end of year	**296**	**395**	**280**	**385**
Leasehold improvements				
Carrying amount at beginning of year	290	273	290	273
Additions	104	39	104	39
Disposals	–	–	–	–
Depreciation	(125)	(22)	(125)	(22)
Carrying amount at end of year	**269**	**290**	**269**	**290**
Manufacturing equipment				
Carrying amount at beginning of year	286	145	286	145
Additions	750	286	750	286
Disposals	–	(145)	–	(145)
Depreciation	(76)	–	(76)	–
Carrying amount at end of year	**960**	**286**	**960**	**286**
Computer equipment & software				
Carrying amount at beginning of year	–	–	–	–
Additions	275	–	275	–
Disposals	–	–	–	–
Depreciation	(28)	–	(28)	–
Carrying amount at end of year	**247**	–	**247**	–
Total plant and equipment net book value	**1,856**	**1,077**	**1,840**	**1,066**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000

16. Non-Current Assets – Intangible Assets

Development Costs – Trophon project				
At cost	201	–	201	–
Accumulated amortisation	(3)	–	(3)	–
Net book value	198	–	198	–

The Trophon project comprises capitalised development costs, being actual costs incurred for an internally generated intangible asset.

Amortisation of $3 is included in depreciation and amortisation expense in the income statement.

17. Non - Current Assets – Other Non-Current Assets

Deposits and bonds	91	–	69	–

18. Current liabilities – Trade and other payables

Trade payables	629	347	609	347
Other payables	304	409	285	409
Total	933	**756**	894	**753**

19. Current liabilities – Provisions

Employee bonuses	147	160	147	160
Employee benefits-Annual Leave & Long Service Leave	190	157	182	157
Total	**337**	**317**	**329**	**317**

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also where employees are entitled to pro-rata payments in certain circumstances. The entire obligation for employee benefits is presented as current, since settlement may not be deferred.

20. Contributed equity

Share capital

196,282,947 (2008: 195,083,623) ordinary fully paid shares	**41,425**	**41,150**	**41,425**	**41,150**

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

	Consolidated and Parent entity	
	Number of shares	$'000
Movements in ordinary shares on issue		
At 30 June 2007	**194,319,243**	**40,998**
Share options exercised	764,380	175
Less: share issue costs	–	(23)
At 30 June 2008	**195,083,623**	**41,150**
New shares issued	587,824	140
Add: share issue costs recovered	–	13
Share options exercised	611,500	122
At 30 June 2009	**196,282,947**	**41,425**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

On a show of hands, every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

At 30 June 2009 there were 7,548,500 options to acquire one ordinary share each outstanding, of which 3,336,960 had vested and were exercisable.

Information relating to the employee share schemes, including details of shares issued under the schemes, is set out in Note 31 to this Financial Report.

Information relating to the Company's employee share option plan and the general share option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 32 to this Financial Report.

21. Reserves – Share-based payments reserve

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Balance 1 July	733	527	733	527
Employee Options expense	179	180	179	180
General Options expense	19	56	19	56
Employee shares expense	32	–	32	–
Amounts transferred to equity:				
Employee options exercised	(59)	–	(59)	–
General options exercised	(12)	–	(12)	–
Amounts transferred to accumulated losses				
Employee options lapsed	(90)	(30)	(90)	(30)
Balance 30 June	**802**	**733**	**802**	**733**

The share-based payments reserve is used to recognise the fair value at grant date of:

- options issued but not vested or exercised
- shares with unsatisfied vesting conditions issued to employees

22. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2008: Nil).

23. Financial instruments

(a) Interest rate risk exposures

2009	Notes	Consolidated					
		Fixed interest rate maturing in:					
		Floating interest rate	1 Year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Cash	10	3,025	–	–	–	–	3,025
Floating Rate Note	10	–	–	7,844	–	–	7,844
Fixed Rate Notes	10	–	3,012	–	–	–	3,012
Receivables	11					468	468
Others	13					201	201
		3,025	3,012	7,844	–	669	14,550
Weighted average interest rate		2.5%	5.75%	3.70%	–	–	–
Financial liabilities							
Payables	18					933	933
Net financial assets (liabilities)		3,025	3,012	7,844	–	(264)	13,617

2008	Notes	Consolidated					
		Fixed interest rate maturing in:					
		Floating interest rate	1 Year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Cash	10	8,046	–	–	–	–	8,046
Term Deposits	10	–	9,289	–	–	–	9,289
Floating Rate Notes	10	6,890	–	–	–	–	6,890
Loans	13	–	45	–	–	–	45
Receivables	11	–	–	–	–	121	121
Others	13	–	–	–	–	164	164
		14,936	9,334	–	–	285	24,555
Weighted average interest rate		7.58%	7.50%	–	–	–	–
Financial liabilities							
Payables	18					756	921
Net financial assets (liabilities)		14,936	9,334	–	–	(471)	23,799

(b) Risk exposure

Information about the Group’s and the Company’s exposure to credit risk, foreign exchange and price risk is provided in Note 2

24. Capital and leasing commitments

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Non-cancellable capital expense commitments				
Future capital expense commitments not provided for in the financial statements and payable:				
Within one year		789		789
One year later and no later than five years				
Non-cancellable operating lease expense commitments				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	261	204	261	193
One year or later and no later than five years	43	184	43	170
	303	**1,177**	**303**	**1,152**

25. Contingent liabilities

Government Grants received

The Company has received two Federal Government grants in respect of specified development projects and in terms of which payments of grant income have been included in the Company's operating income. Certain details of the grants are shown below.

	Interest rates applicable to repayments	Total grant income received to 30 June	
		2009 $'000	2008 $'000
R&D Start Grant	5.395%	1,889	1,889
Commercial Ready Grant	5.665%	3,191	3,191

If certain circumstances occur, relating mainly to cessation by the Company of the activities subject to a grant and/or loss to the Commonwealth of Australia of intellectual property so created within a period of five years after completion of the project, the government may recover some or all of the payments made under the grant, plus interest.

The Directors consider that none of the circumstances required for grant income to be refundable has occurred to the date of this report or is foreseeable. However, due to uncertainty inherent in the activities subject to the grants, the amounts stated above, together with applicable interest, represent contingent liabilities as at 30 June 2009.

26. Employee benefits

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Aggregate liability for employee benefits, including on-cost:				
Payables	147	160	147	160
Employee benefits provision	190	157	182	157
Number of employees at year end	38	47	37	47

Superannuation commitments

The company makes contributions to superannuation plans for the benefit of eligible employees. The company has a legally enforceable obligation to make these contributions under the auspices of the Superannuation Guarantee Charge legislation and related guidelines proclaimed by the federal government. The contributions are made as a fixed percentage of salary.

27. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Audit services				
UHY Haines Norton in Australia:				
Audit and review of financial reports	28	21	28	21
Total remuneration for audit services	**28**	**21**	**28**	**21**
UHY Haines Norton in Australia:				
Audit of regulatory returns	2	2	2	2
Total remuneration for audit-related services	**2**	**2**	**2**	**2**
Taxation services				
UHY Haines Norton in Australia:				
Tax compliance services	1	1	1	1
International taxation services	3	–	3	–
International offices of UHY:				
International taxation services	11	–	11	–
Total remuneration for taxation services	**15**	**1**	**15**	**1**
Total remuneration for non-audit services	**17**	**3**	**17**	**3**

28. Related party disclosure

All amounts in this note on Related Parties are stated in whole dollars, i.e. They have not been rounded to the nearest thousand dollars.

(a) Parent entities

The parent entity within the Group is Nanosonics Limited which at 30 June 2009 owned 100% of the issued ordinary shares of Nanosonics Europe GmbH and Saban Ventures Pty Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 14 to this Financial Report.

(c) Directors and Key Management Personnel

Related party disclosure in respect of Directors and Key Management Personnel are set out in Note 29 to this Financial Report.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Purchases of goods				
Purchases of services from Subsidiaries	–	–	618	227
Superannuation contributions				
Contributions to superannuation funds on behalf of all employees	339	281	339	281

(e) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Current receivables (supply of goods and services)	–	–	16	–

(f) Guarantees

No guarantees were provided during the year under review and none were in effect at the year end between the Company and its subsidiaries (2008: Nil).

(g) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

Outstanding balances are unsecured and are repayable in cash.

29. Directors and Key Management Personnel disclosures

(a) Directors

The following persons were Directors of Nanosonics Limited throughout the financial year unless shown otherwise:

Mr Maurie Stang, Non-Executive Chairman
Mr David Radford, Executive Director and CEO
Dr Ron Weinberger, Executive Director (appointed 2 July 2008)
Dr David Fisher, Non-Executive Director
Mr William Widin, Non-Executive Director (resigned 5 February 2009)
Mr David Slack, Non-Executive Director (appointed 5 February 2009)

(b) Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, throughout the financial year unless shown otherwise:

Dr Ron Weinberger, General Manager, Innovations & Technology
Mr Ole Stockhausen, General Manager, Global Market & Business Development (resigned 18 May 2009)
Ms Rachael Moore, General Manager, Product Development & Manufacturing (resigned 3 April 2009)
Mr John Murtagh, General Manager, Business Systems & Regulatory Affairs (resigned 26 June 2009)
Mr Chris Grundy, Chief Financial Officer & Company Secretary
Mr Arjang Safa, General Manager, Manufacturing & Supply Chain

All of the above persons were employed by Nanosonics Limited and were respectively Directors and Key Management Personnel for the year ended 30 June 2008, except for:

Directors
Mr David Slack (appointed 5 February 2009)
Dr Ron Weinberger (appointed a Director 2 July 2008)
Mr David Radford (appointed 16 June 2008)
Mr Geoff Marshall (resigned 14 December 2007)

Key Management Personnel
Mr Arjang Safa (appointed 1 January 2008)

(c) Directors and Key Management Personnel compensation

	Group and Company	
	2009 $	2008 $
Director fees	119,546	180,933
Consultant fees	–	–
Short term employee benefits	1,164,885	1,076,158
Post-employment benefits	93,572	86,730
Termination benefits	36,431	79,619
Share based payments	160,467	210,997
Total compensation	**1,574,901**	**1,634,437**
Total compensation includes total remuneration for directors of the parent entity of	**731,867**	**691,124**

The Company has taken advantage of the relief provided by *Corporations Regulation 2M.6.04* and transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in Part 5 to 8 of the Remuneration Report on pages 36 to 41.

(d) Equity instrument disclosures relating to Directors and Key Management Personnel

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in Sections 6 to 8 of the Remuneration Report on pages 37 to 40.

(ii) Options holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of the Company and Key Management Persons of the Group, including their personally-related parties, are set out below.

Options holdings Name		Balance at start of the year	Granted as compensation	Other changes	Exercised	Balance at the end of the year	Vested and exercisable	Unvested or not exercisable
Directors								
Maurie Stang	2009	–	–	–	–	–	–	–
	2008	–	–	–	–	–	–	–
David Radford	2009	–	1,000,000	–	–	1,000,000	500,000	500,000
	2008	–	–	–	–	–	–	–
David Fisher	2009	–	–	–	–	–	–	–
	2008	547,700	–	–	(547,700)	–	–	–
David Slack	2009	–	50,000	–	–	50,000	–	50,000
	2008	–	–	–	–	–	–	–
Ron Weinberger	2009	1,175,000	–	–	–	1,175,000	775,500	399,500
	2008	1,175,000	–	–	–	1,175,000	387,750	787,250
William Widin	2009	–	–	(278,340)	–	–	–	–
	2008	278,340	–	–	–	278,340	–	278,340
Key Management Personnel								
Ole Stockhausen	2009	625,000	–	(295,000)[2]	(330,000)[2]	–	–	–
	2008	625,000	–	–	–	625,000	206,250	418,750
Rachael Moore	2009	490,000	–	(424,000)	(66,000)[2]	–	–	–
	2008	490,000	–	–	–	490,000	161,700	328,300
John Murtagh	2009	465,000	–	(349,500)	(115,500)[2]	–	–	–
	2008	465,000	–	–	–	465,000	153,450	311,550
Chris Grundy	2009	250,000	100,000	–	–	350,000	82,500	267,500
	2008	–	250,000	–	–	250,000	–	250,000
Arjang Safa	2009	80,000	350,000	–	–	430,000	26,400	403,600
	2008	–	80,000	–	–	80,000	–	80,000

All vested options were exercisable at the end of the financial year.

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of the Company and Key Management Person of the Group, including their personally-related parties, are set out below. Details of shares provided as remuneration, together with the terms and conditions of the shares, can be found in Sections 6 to 8 of the Remuneration Report on pages 37 to 40.

Share holdings name		Balance at start of the year	Received during the year on the exercise of options	Other net changes during the year	Balance at end of the year	Number of restricted shares
Directors						
Maurie Stang	2009	28,377,000	–	–	28,377,000	–
	2008	28,377,000	–	–	28,377,000	28,377,000
David Radford	2009	–	–	116,117	116,117	–
	2008	–	–	–	–	–
David Fisher	2009	944,426	–	–	944,426	–
	2008	396,726	547,700	–	944,426	843,191
David Slack	2009	–	–	100,000	100,000	–
	2008	–	–	–	–	–
Ron Weinberger	2009	–	–	75,000[3]	75,000	–
	2008	–	–	–	–	–
William Widin	2009	1,785,000	–	(1,785,000)[4]	–	
	2008	1,785,000	–	–	1,785,000	1,284,000
Key Management Personnel						
Ole Stockhausen	2009	–	330,000	(330,000)[4]	–	–
	2008	–	–	–	–	–
Rachael Moore	2009	6,000	66,000	(72,000)[4]	–	–
	2008	6,000	–	–	6,000	–
John Murtagh	2009	–	115,500	(115,500)[4]	–	–
	2008	–	–	–	–	–
Chris Grundy	2009	20,000	–	112,755	132,755	–
	2008	20,000	–	–	20,000	–
Arjang Safa	2009	–	–	39,083	39,083	–
	2008	–	–	–	–	–

1 Options lapsed on 30 September 2008.
2 Option holder resigned during the year and all options not exercised then lapsed.
3 Shares issued under the DESP as part of the Company's long term incentive plans. The shares vest in three equal tranches annually commencing 26th of June 2010 and are forfeitable if the holder ceases employment before the vesting date.
4 Shareholder resigned during the year.

(e) Loans to Directors and Key Management Personnel

During the financial year and to the date of this report, the Group made no loans to Directors and Key Management Personnel and none were outstanding at the year ended 30 June 2009 (2008-$nil).

(f) Transactions with Directors and Key Management Personnel

Certain Directors and Key Management Personnel, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the financial years to 30 June 2009 and 30 June 2008. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

Details of the types of transactions that were entered into with Directors and Key Management Personnel are:

Directors and Key Management Personnel	Related entities	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Services received
Maurie Stang	Henry Schein Regional Pty Ltd	Rent of equipment
Maurie Stang	Medi-Consumables Pty Ltd	Products purchased, services received and products sold
Maurie Stang	Novapharm Research (Australia) Pty Ltd	Services received
Maurie Stang	Ramlist Pty Ltd	Rent of premises
Maurie Stang	Stangcorp Pty Ltd	Services received
William Widin	Widin Management Pty Ltd	Services received
Arjang Safa	Samec	Products purchased and services received

The aggregate amounts of each of the above types of transactions with Directors and Key Management Personnel of the Group were:

	2009 $000	2008 $000
Amounts recognised as revenue		
Products sold	196	–
Amounts recognised as expenses		
Services received	131	112
Products purchased and services received	339	324
Rent of premises	100	96
Rent of equipment	8	–

The aggregate amounts of assets and liabilities relating to the above types of transactions with Directors and key management personnel of the Group were:

	2009 $000	2008 $000
Assets		
Current receivables	140	–
Liabilities		
Current liabilities	21	13

30. Notes to the cash flow statements

(a) Reconciliation of cash

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Cash and deposits on call		**13,881**	**24,225**	**13,876**	**24,217**

For the purpose of the Cash Flow Statement, cash includes cash on hand and at bank and short term deposits at call and the floating rate note, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Cash Flow Statements is reconciled to the related items in the statement of financial position as follows:

(b) Reconciliation of operating (loss) after income tax to net cash provided by operating activities

Operating (loss) after income tax	(8,754)	(7,147)	(8,754)	(7,147)
Adjustment for:				
Depreciation and amortisation	419	244	412	242
Share based payments	230	236	230	236
Unrealised gain / loss on foreign exchange				
Changes in assets and liabilities				
(Increase) / decrease in receivables	(218)	43	(191)	55
(Increase) / decrease in inventories	(919)	-	(919)	-
(Increase) / decrease in other current assets	–	162	22	175
(Increase) / decrease in other non-current assets	(92)	–	(82)	–
Increase /(Decrease) in creditors and borrowings	178	(847)	144	(850)
Increase /(Decrease) in provisions	20	174	12	174
Net cash used in operating activities	**(9,136)**	**(7,135)**	**(9,126)**	**(7,115)**

(c) Credit standby arrangements unused

Unused credit facility	–	–	–	–

31. Earnings (loss) per share

	Consolidated	
	2009	2008
	Cents	Cents

(a) Basic earnings (loss) per share

Loss attributable to ordinary shareholders of the Company	(4.5)	(3.7)

(b) Diluted earnings (loss) per share

Loss attributable to ordinary shareholders of the Company	(4.3)	(3.4)

c) Earnings (losses) used in calculating earnings (loss) per share

	Consolidated	
	2009	2008
	$'000	$'000
Net loss after income tax expense attributable to shareholders	(8,752)	(7,147)

(d) Weighted average number of shares used

	Consolidated	
	2009	2008
	Number	Number
For basic earnings per share	196,282,947	194,884,841
For diluted earnings per share	202,182,390	210,036,397

(e) Information concerning options granted

Options granted under the Nanosonics Employee Share Option Plan and the Nanosonics General Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings (loss) per share. The options have not been included in the determination of basic earnings (loss) per share. Details relating to the options are set out in Note 32 to this Financial Report.

32. Share-based compensation

The Company's share based compensation schemes comprise option plans and share plans. Options have been granted under the option plans. Shares have been granted under the Deferred Employee Share Plan. To the date of this report no shares have been granted under the Exempt Employee Share Plan.

(a) Option plans

The establishment of both the Nanosonics Employee Share Option Plan (ESOP) and the Nanosonics General Share Option Plan (GSOP) was approved by the Directors on 2 April 2007. Under the plans, participants are granted options for no consideration which vest in three equivalent tranches on each of the first three anniversaries of the issue date of the options. The options expire on the fourth such anniversary. The exercise price of options is determined by the Board at the time of issue. Participation in the plans is at the Board's discretion and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

General Share Option Plan (GSOP)

The General Share Option Plan is designed to provide incentive, recognition and reward for non-employees, usually consultants and contractors, who create long-term value for the Company. Options were issued under the GSOP during the financial year.

Employee Share Option Plan (ESOP)

The Employee Share Option Plan is designed to provide long-term incentives for employees (including executive directors) to deliver long-term shareholder returns. All employees and directors are eligible to participate in the ESOP at the invitation of the Board. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue. Options were issued under the ESOP during the financial year.

(b) Exercise of options

Options are granted under the plans for no consideration and options carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share that ranks equally with any other share on issue in respect of dividends and voting rights. The exercise prices of all options issued to the date of this report were fixed on the dates the options were granted. Details are provided in section (c) of Note 32 to this Financial Report.

(c) Unexpired options

Number of Options	2009	2008
Unexpired options as at 1 July	14,198,560	16,685,940
Granted during the year	2,630,000	445,000
Exercised during the year	611,500)	(764,380)
Forfeited during the year	1,372,560)	(2,168,000)
Expired during the year	(7,296,560)	–
Unexpired options as at 30 June	**7,548,500**	**14,198,560**

Options granted during the financial year comprised a total of 2,410,000 under the ESOP (2008:330,000) and a total of 220,000 under the GSOP (2008: 115,000)

Set out below are details of unexpired options granted under the plans as at 30 June 2009:

Option Type	ESOP	ESOP	GSOP	GSOP	GSOP	ESOP	ESOP	ESOP	ESOP	GSOP	ESOP	ESOP	GSOP
Exercise price	$0.20	$0.75	$0.20	$0.20	$0.30	$0.75	$0.75	$0.30	$0.30	$0.30	$0.30	$0.345	$0.345
Grant date	Apr 2007	Apr 2007	Apr 2007	Jul 2007	Jul 2007	Jul 2007	Nov 2007	Nov 2008	Nov 2008	Nov 2008	June 2009	June 2009	June 2009
Assessed fair value at grant date	$0.240	$0.085	$0.240	$0.540	$0.475	$0.280	$0.145	$0.059	$0.059	$0.059	$0.299	$0.226	$0.226
Expiry date	17 May 2011	17 May 2011	17 May 2011	17 Jul 2011	17 Jul 2011	17 Jul 2011	30 Nov 2011	17 Nov 2012	17 Nov 2012	17 Nov 2012	16 Jun 2013	26 June 2013	26 June 2013
Number at start of the year	3,455,000	1,302,000	1,700,000	65,000	50,000	250,000	80,000	–	–	–	–	–	–
Number granted during the year	–	–	–	–	–	–	–	500,000	90,000	50,000	500,000	1,320,000	170,000
Number exercised during the year	561,500	–	50,000	–	–	–	–	–	–	–	–	–	–
Number forfeited during the year	608,500	763,500	–	–	–	–	–	–	–	–	–	–	–
Number at end of the year	2,285,000	538,500	1,650,000	65,000	50,000	250,000	80,000	500,000	90,000	50,000	500,000	1,320,000	170,000
Number vested and exercisable at end of year	1,508,100	355,410	1,089,000	21,450	16,500	82,500	26,400	165,000	–	–	–	–	–

(d) Fair value of options granted

The assessed fair value on the date options were granted was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The inputs to the valuations of options granted and not expired to 30 June 2009 included:

Option type	ESOP	ESOP	GSOP	GSOP	ESOP	ESOP	ESOP	ESOP	GSOP	ESOP	ESOP	GSOP
Exercise price	$0.20	$0.75	$0.20	$0.30	$0.75	$0.75	$0.30	$0.30	$0.30	$0.30	$0.345	$0.345
Grant date	Apr 2007	Apr 2007	Apr 2007	Jul 2007	Jul 2007	Nov 2007	Nov 2008	Nov 2008	Nov 2008	Jun 2009	Jun 2009	Jun 2009
Expiry date	17 May 2011	17 May 2011	17 May 2011	17 Jul 2011	17 Jul 2011	30 Nov 2011	17 Nov 2012	17 Nov 2012	17 Nov 2012	16 Jun 2013	26 Jun 2013	26 Jun 2013
Estimated share price at grant date	$0.375	$0.375	$0.375	$0.690	$0.690	$0.715	$0.190	$0.190	$0.190	$0.480	$0.440	$0.440
Expected price volatility of the Company's shares	45.73%	45.73%	45.73%	45.73%	45.73%	46.02%	51.58%	51.58%	51.58%	58.75%	59.06%	59.06%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	6.17%	6.17%	6.40%	6.40%	6.40%	6.265%	4.240%	4.240%	4.240%	5.005%	5.320%	5.320%
Assessed fair value at grant date	$0.240	$0.085	$0.540	$0.475	$0.280	$0.145	$0.059	$0.059	$0.059	$0.299	$0.226	$0.226

(e) Recognition of expense of options granted

General Share Option Plan (GSOP)

The assessed fair values of options granted under the GSOP are expensed in full in the month in which they are granted and a share based payments reserve is created as part of shareholders' equity, except where the options are granted as part of a capital raising programme, in which case no cost is recognised.

Employee Share Option Plan (ESOP)

Options granted under the ESOP require the holder to be an employee of the Company at the time the options are exercised, except that they may be exercised, if vested, up to 30 days after voluntary termination of employment. The assessed fair value of ESOP options granted is apportioned on a straight line monthly basis over the period between grant date and the date on which the options all vest. At the end of a period the Company assesses the probability of achievement of a benefit, being the percentage probability that employees will achieve a benefit if the options are exercised. The value of ESOP options expensed in any period is calculated as that portion of the assessed fair value applicable to the period factored by the probability of achievement and a share based payments reserve is created as part of shareholders' equity.

(f) Employee share plans

The Company has two Employee Share Plans, being the Exempt Employee Share Plan ("EESP") and the Deferred Employee Share Plan ("DESP").

Adoption of the EESP and DESP was approved at a general meeting of shareholders on 26 November 2007 and the approval is for a period of 3 years ending 26 November 2010. Shareholder approval was also granted on 26 November 2007 to enable the Company to grant financial assistance under both the EESP and the DESP in accordance with the Corporations Act 2001.

In any one financial year, employees, including Directors, may participate in only one of the EESP and DESP to the exclusion of the other.

Exempt Employee Share Plan ("EESP")

The EESP enables eligible employees, including Directors, to acquire up to $1,000 worth of Nanosonics shares each year on a tax-exempt basis in accordance with enabling tax legislation. As a contemporary company the Board believes allowing employees to acquire equity in the Company on tax-preferred terms should be encouraged. No shares have been issued under the EESP to the date of this report.

Nanosonics Deferred Employee Share Plan ("DESP")

The DESP allows invited eligible employees, including Directors, to receive Nanosonics shares as a bonus or incentive or as remuneration sacrifice and, subject to certain conditions, not to pay tax for up to 10 years on the benefit in accordance with enabling tax legislation. The DESP is designed to allow the Company to meet contemporary executive equity incentive practices. Shares were issued under the DESP during the financial year.

(h) Shares granted

During the financial year a total of 587,842 new shares were granted under the DESP (2008:nil). Details of the grant are set out below. No shares have been granted to the date of this report under the EESP.

Share Plan	DESP	DESP	DESP
Share issue price	$0.2880	$0.4251	$0.4251
Grant date	23 March 2009	26 June 2009	26 June 2009
Assessed fair value at grant date	$0.2880	$0.4251	$0.4251
Closing share price on grant date	$0.2950	$0.4100	$0.4100
Number at start of the year	–	–	–
Number granted during the year	336,424	176,400	75,000[1]
Number forfeited during the year	–	–	–
Number at end of the year	336,424	176,400	75,000
Number vested at end of year	336,424	176,400	–

1 Shares issued under the DESP to Dr Ron Weinberger, and Executive Director, as part of the Company's long term incentive plans. The shares vest in three equal tranches annually commencing 26th June 2010 and are forfeitable if the holder ceases employment before the vesting date.

(i) Fair value of shares granted

The issue price for shares granted is calculated as the 5-day weighted average market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the shares were granted. The fair value of shares granted is taken to be the issue price.

(j) Recognition of expense of shares granted

Deferred Employee Share Plan (DESP)

The assessed fair values of shares granted under the DESP are expensed in full in the month in which they are granted, except if they are granted with a vesting condition, in which case the fair value of DESP shares granted is apportioned on a straight line monthly basis over the period between grant date and the date on which the shares all vest. At the end of a period the Company assesses the probability of achievement of a benefit, being the percentage probability that employees will achieve at least the fair value of the unvested shares. The value of DESP shares expensed in any period is calculated as that portion of the fair value applicable to the period factored by the probability of achievement. A share based payments reserve is created as part of shareholders' equity.

(k) Expenses arising from share-based compensation transactions

	Group and Company	
	2009	2008
	$'000	$'000
Options issued under ESOP	179	180
Options issued under GSOP	19	56
Shares issued under DESP	172	–
Total share-based compensation	**$370**	**$236**

33. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the Group's state of affairs in future financial years.

Directors' declaration

In the Directors' opinion:

1. the financial statements and notes set out on pages 43 to 75 are in accordance with the *Corporations Act 2001*, including:
    a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
    b. giving a true and fair view of the Company's and Group's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
2. there are reasonable grounds to believe that the Company and its subsidiaries will be able to pay their debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.

David Fisher
Director

Sydney
19 August 2009

UHY Haines Norton
Chartered Accountants

Nanosonics Limited and its Controlled Entity
ABN 11 095 076 896
Independent Audit Report
To the Members of Nanosonics Limited

Scope

Report on the Financial Report

We have audited the accompanying financial report of Nanosonics Limited (the company) and Nanosonics Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

UHY Haines Norton - ABN 85 140 758 156 NSWBN 98 133 826
Level 11, 1 York Street Sydney NSW 2000
GPO Box 4137 Sydney NSW 2001
t + 61 2 9256 6600
f + 61 2 9256 6611
e sydney@uhyhn.com.au
w www.uhyhainesnorton.com.au

UHY Haines Norton
Chartered Accountants

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. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Nanosonics Limited on 12 August 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

(a) The financial report of Nanosonics Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3;

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 32 to 41 of the report of the directors for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Nanosonics Limited for the year ended 30 June 2009, complies with s 300A of the Corporations Act 2001.

UHY Haines Norton

M. D. Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 19 August 2009

INTELLIGENT CHOICE • INTELLIGENT SOLUTIONS

The shareholder information set out below was applicable as at 13 August 2009.

A. Equity security holders

Twenty largest holders of quoted equity securities.

The names of the twenty largest holders of quoted securities are shown below.

Ordinary shares	Quoted shares Number held	Percentage of issued shares
Bernie Stang	28,540,333	14.5%
Maurie Stang	28,365,333	14.5%
Steve Kritzler	22,364,333	11.4%
JP Morgan Nominees Australia Limited	5,619,675	2.9%
National Nominees Limited	5,425,796	2.8%
Australian Biotechnology and Healthcare fund No 3 Limited	4,148,980	2.1%
3M Company	4,000,000	2.0%
Towns Corporation Pty Ltd	3,543,409	1.8%
ANZ Nominees Limited	3,093,547	1.6%
Cogent Nominees Pty Ltd	2,852,292	1.5%
Kefford Holdings Pty Ltd	2,393,580	1.2%
UBS Nominees Pty Ltd	2,250,000	1.1%
Asia Union Investments Pty Ltd	2,200,000	1.1%
Australian Biomedical Fund No 1 Limited	2,024,568	1.0%
Australian Biomedical Fund No 2 Limited	1,910,241	1.0%
HSBC Custody Nominees (Australia) Limited	1,812,908	0.9%
Darlington Weir Pty Ltd	1,785,000	0.9%
Bennelong Resources Pty Ltd	1,500,000	0.8%
Simon Magasanik	1,331,398	0.7%
Bevan Holdings Pty Ltd	1,262,487	0.6%
Totals top 20 holders	**126,414,880**	**64.4%**
Total all other holders	**69,868,067**	**35.6%**
Total shares on issue	**196,282,947**	**100.0%**

Unquoted equities securities

	Number of options over ordinary shares	Number of holders
Options granted		
General Share Options to take up unissued ordinary shares	1,985,000	22
Employee Share Options to take up unissued ordinary shares	5,563,500	32

B. Distribution of equity securities

Analysis of numbers of ordinary shares and options by size of holding:

	Quoted ordinary shares	Unquoted options
1 – 1,000	39	–
1,001 – 5,000	288	9
5,001 – 10,000	280	–
10,001 – 100,000	697	50
100,001 and over	165	16
Total Holders	**1,469**	**75**

There were 48 holders of less than a marketable parcel of ordinary shares.

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage of total ordinary shares
Bernie Stang	28,540,333	14.5%
Maurie Stang	28,365,333	14.5%
Steve Kritzler	22,364,333	11.4%

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares including restricted ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and on a poll each share shall have one vote.

(b) Options

Options have no voting rights.

Glossary

510(k)	Premarket Notification to the FDA, under Section 510(k) of the Food Drug and Cosmetic Act, of intent to market a medical device in the USA.
AASB	Australian Accounting Standards Board
AGM	Annual General Meeting
ANZ	Australia and New Zealand
APES	Standards issued by the Accounting Professional & Ethical Standards Board (APESB)
ASX	Australian Securities Exchange Limited
BBSW	Bank bill swap reference rate
CDC	Centers for Disease Control (USA)
CEO	Chief Executive Officer – Mr David Radford
CFO	Chief Financial Officer – Mr Chris Grundy
Clostridium difficile	A bacterium, the most common cause of infectious diarrhoea in hospitals and long-term care homes
Company	Nanosonics Limited
Date of this report	19 August 2009
DESP	Deferred Employee Share Plan
EESP	Exempt Employee Share Plan
EN15883	A Standard, also known as HTM2030, for the testing of Washer Disinfectors for surgical instruments, including endoscopes, to ensure they are operating correctly
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESOP	Employee Share Option Plan
FDA	Food and Drug Administration - USA
Financial Year	Year to 30 June
Fiscal Year	Year to 30 June
Group	Nanosonics Limited and its wholly owned subsidiary companies
GSOP	General Share Option Plan
GST	Goods and Services Tax
HLD	High Level Disinfection
HLD+	High Level Disinfection Plus, including sporicidal efficacy - Nanosonics new dimension of disinfection based on the Company's platform technologies
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IP	Intellectual Property
ISO 13485	Quality Management System for Medical Devices – Requirements for Regulatory Purposes
IVF	In-vitro fertilisation
KMP	Key Management Personnel (excludes non-Executive Directors)
LTI	Long Term Incentive
MRSA	Methicillin resistant staphylocccus aureus, a bacterium resistant to broad spectrum antibiotics
NanoNebulant®	The biocide used in Nanosonics' technological process
Q 1, 2, 3, 4	3-month periods beginning 1 July, 1 October, 1 January and 1 April respectively
O&G	Obstetric & Gynaecology
PCT	Patent Co-operation Treaty
Reporting period	Year to 30 June 2009
RoHs compliant	Restriction of use of Hazardous Substances
S+	Sterilisation Plus, including prionicidal efficacy - Nanosonics new dimension of sterilisation based on the Company's platform technologies
STI	Short Term Incentive
TEC	Total Employment Cost
TEE	Transoesophageal Echocardiagram, a type of probe
TGA	Therapeutic Goods Administration – Australia
Trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
Trophon EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes. See also www.trophon.com.au
VAT	Value Added Tax

Corporate Directory and Information for Investors

Nanosonics Limited
ACN 11 095 076 896
Incorporated 14 November 2000

Directors
Maurie Stang
David Radford
David Fisher
David Slack
Ron Weinberger

Secretary and Chief Financial Officer
Chris Grundy

Registered Office
Unit 24, 566 Gardeners Road
Alexandria NSW 2015 Australia
Ph: +61 2 8063 1600

German Office
Nanosonics Europe GmbH
Falkenried 88. House E
D-20251 Hamburg Germany
Ph: +49 40 298 67308

Share Register
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000 Australia
GPO Box D182
Perth WA 6840 Australia
Ph: +61 8 9323 2000
Ph: 1300 557 010 (within Australia)
Fax: +61 8 9323 2033
www-au.computershare.com

Investor Relations
Computershare Investor Services Pty Ltd
Ph: +61 8 9323 2000
Ph: 1300 557 010 (within Australia)

Chris Grundy – Company Secretary
Ph: +61 2 8063 1600
Email: info@nanosonics.com.au

Auditor
UHY Haines Norton
Level 11, 1 York Street
Sydney NSW 2000 Australia

Legal Advisors
Shelston IP
Level 21, 60 Margaret Street
Sydney NSW 2000 Australia

Spruson & Ferguson
Level 35, St Martins Tower,
31 Market Street
Sydney NSW 2000 Australia

Palaschinski & Partner
Neuer Wall 44
Hamburg 20354 Germany

Bankers
ANZ Banking Group Limited
Level 1, 20 Martin Place
Sydney NSW 2000 Australia

Deutsche Bank AG
Eppendorfer Landstrasse 70
Hamburg 20249 Germany

Stock Exchange Listings
Nanosonics Limited shares are listed on the Australian Securities Exchange Limited (ASX)
ASX code: NAN
Industry Group: Healthcare Equipment & Services
and on the
German Stock Exchanges at Frankfurt and Xetra, Symbol: OQS

2009 Annual General Meeting
The 2009 AGM of Nanosonics Limited will be held:
At 4.15pm on Wednesday 4th November 2009
At Level 47, MLC Centre, 19 Martin Place, Sydney NSW Australia

Website Address
www.nanosonics.com.au

LISTED ON ASX

Nanosonics Limited

Unit 24, 566 Gardeners Road
Alexandria NSW 2015 Australia

T +61 2 8063 1600
E info@nanosonics.com.au

www.nanosonics.com.au