annual report 2011

Contents

Company overview

Nanosonics is an Australian listed company headquartered in Alexandria, Sydney with its US support office located in Indianapolis, Indiana and its European sales office in Hamburg, Germany. The Company is committed to becoming a global leader in low-temperature, point of care disinfection and sterilisation solutions in the healthcare markets. The Company is also seeking to expand its platform technologies into additional market segments.

The Company owns proprietary low-temperature disinfection and sterilisation technologies which have a number of core benefits when compared with current market offerings. Nanosonics unique and patented technology platform, based upon NanoNebulant™, is well positioned to take a leading role in the healthcare disinfection and sterilisation arena.

Nanosonics' first product to market is the Trophon EPR®, a device specifically designed for the disinfection of ultrasound transducers. Sales of the Trophon EPR® are complemented by a range of consumable products and accessories.

The Trophon EPR® for the High Level Disinfection of ultrasound transducers is establishing the new standard in the point of care disinfection market. Nanosonics is committed to reducing the spread of infection by providing best in class products that set a new global benchmark in ease of use, operator and patient safety, disinfection efficacy and environmental friendliness.

This ability to adapt its technology for diverse customer groups and global market applications will ensure continued growth. Nanosonics will continue to drive shareholder value through an on-going investment in R&D with a focus on development of commercial products aimed at markets with attractive recurrent revenues.

Key 2011 milestones

FDA 510(k) approval to market the Trophon EPR® and the Chemical Indicator in the United States

Exclusive agreement with GE Healthcare for the distribution in the US and Canada of the Trophon EPR® and associated accessories and consumables. GE Healthcare also has non-exclusive distribution rights outside the US and Canada

Launch of the international version of the Trophon EPR® in the United States

Establishment of Nanosonics Inc., a wholly owned subsidiary, to support the Company's expansion into the lucrative North American market

Appointment of Dr Weinberger as CEO and expansion of the Company's global management team with the addition of a highly skilled personnel with significant international experience in commercialisation, manufacturing, quality and regulatory affairs, service and support of medical devices

Further scale-up of the Company's engineering, R&D and regulatory capabilities

Strong trade engagement in developing additional applications of the NanoNebulant® platform

Series of additional revenue opportunities identified and targeted for commercialisation

Intellectual property

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

During the year, the Company further added to its Intellectual property which now consists of 15 patent families. Each patent family provides Nanosonics with a fundamental competitive advantage to protect 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.

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	Granted or 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	Awaiting/undergoing national examination	2 February 2007
Sub-cycle Based Disinfection System	A method for fast disinfection and rapid removal of residual sterilant	PCT awaiting national entry	30 June 2008
Aerosol Sensor	A method and apparatus for the measurement of aerosol for the purposes of certifying sterilisation	PCT awaiting national entry	30 June 2008
Safe Chemical Delivery System	A method and apparatus for the safe handling of chemical consumables	PCT awaiting national entry	30 June 2008
Nebuliser Manifold	A manifold for improving aerosol properties and flow in a chamber	PCT awaiting national entry	15 August 2008
Decontamination Aerosol	Self-neutralising aerosols	PCT awaiting examination	22 May 2009
Disinfection Product and Process	Self-neutralising aerosols	PCT awaiting examination	22 May 2009
Calorimetric Sensor	Quick response calorimetric sensor for measuring sterilisation parameters	PCT awaiting examination	10 September 2009
Liquid Level Sensor	Sensor for detecting liquid peroxy chemicals	Provisional	24 June 2011
Design family			
Bottle	Non-refillable bottle for safe delivery of consumables	Registered/awaiting national examination	1 June 2009

[a]Certain national applications not of interest have now been abandoned. *Patents expire 20 years after filing date or priority date.

Global Accreditation Achievements

GE Healthcare

May ' 11

GE Healthcare was formally selected as the exclusive distribution partner of the Trophon EPR® system and accessories for the North American market in May 2011.

FDA

Feb' 11

FDA approval to market was received in February 2011 allowing for the sale of the Trophon EPR® system and accessories into the US market. Clearance was granted under 510K reference K103059 and K103126.

Australian Government
Department of Health and Ageing
Therapeutic Goods Administration

Feb ' 09

TGA Conformity Assessment Certificate was granted in February 2009 - ARTG 159484. This allows for the marketing, distribution and sale of the Trophon EPR® system along with related accessories into the Australian market.

MEDSAFE
NEW ZEALAND MEDICINES AND MEDICAL DEVICES SAFETY AUTHORITY

Nov' 08

The Trophon EPR® is entered on Medsafe's WAND database 081105-WAND-65MJ77 allowing for sale in New Zealand.

Health Canada / Santé Canada

Sept ' 08

Health Canada Licence 77877 was received in September 2008 allowing for the marketing and sale of the Trophon EPR® system into the Canadian market.

CE

Apr' 08

CE Mark was granted by TUV in April 2008 allowing for the sale of the Trophon EPR® system along with related accessories into the European market.

TÜVRheinland®
Precisely Right.

Nov ' 06

Initial ISO13485: 2003 Certification was received from the European Notifed Body TUV in November 2006.

Trophon EPR®

"Compared to existing disinfection processes, the Trophon EPR® offers a safer, faster and more convenient solution for high-level disinfection."

Latest model Trophon EPR® holding an intra-cavity ultrasound probe with Chemical Indicator in position

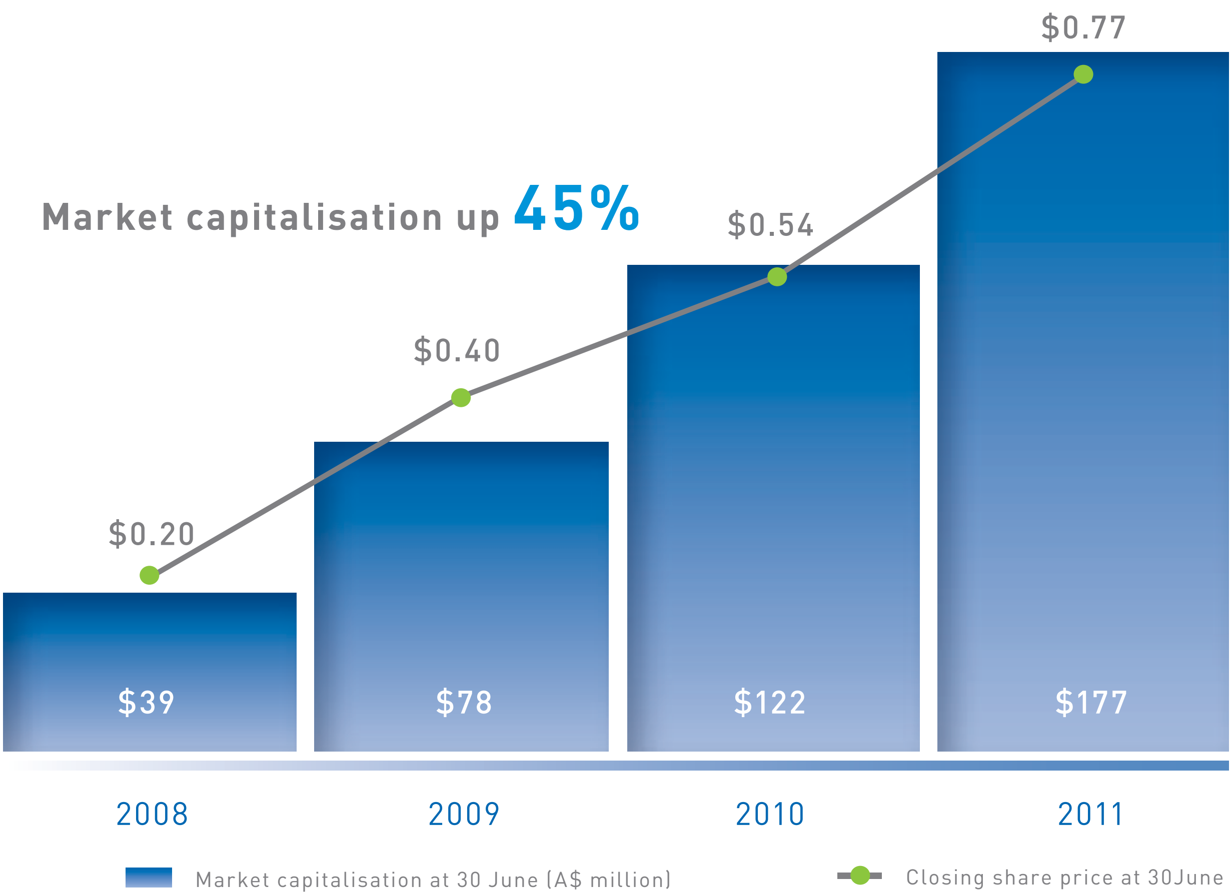
Financials at a glance

Summary financial results

A comparative summary of the consolidated financial results for the year to 30 June 2011 is set out below.

	2008 A$'000	2009 A$'000	2010 A$'000	2011 A$'000
Revenue				
Operating revenue	–	309	763	2,247
Less cost of sales	–	(121)	(248)	(981)
Gross profit	**–**	**188**	**479**	**1,266**
Other income				
Government grants received	1,112	150	161	–
Interest income	1,943	1,194	785	1,052
Expenses				
Operating expenses (excluding depreciation and amortisation)	(9,961)	(9,867)	(8,827)	(13,229)
EBITDA	**(8,849)**	**(9,529)**	**(8,187)**	**(11,963)**
Depreciation and amortisation	(241)	(419)	(771)	(1,010)
EBIT	(9,090)	**(9,948)**	**(8,958)**	**(12,973)**
Operating loss before tax	**(7,147)**	**(8,754)**	**(8,172)**	**(11,921)**
Basic EPS (Loss) (cents)	(3.9)	(4.5)	(3.9)	(4.9)
Cash assets				
Cash and cash equivalent assets on hand	**24,225**	**13,881**	**21,144**	**12,356**

Further details of the financial results are set out in the financial statements on pages 46 to 82 of this report.



Nanosonics first product to market

trophon

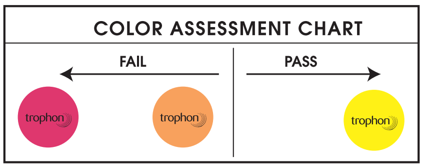
High Level Disinfection of ultrasound transducers.

Consumables

Sonex-HL™ (NanoNebulant®)

Cartridge that contains 80 ml proprietary peroxide based disinfectant providing approximately 40 cycles of disinfection per cartridge. Provides annuity revenue.

Chemical Indicator



Disc impregnated with a dye that turns from red to a signal yellow to visually indicate the successful completion of a disinfectant cycle. Complements the patent pending automated sensors that are internal to the Trophon EPR® and also signal successful disinfection. The indicator is used each cycle and provides an annuity revenue stream.

Accessories

Cart

Used to transfer the Trophon EPR® from one area to another ensuring optimal portability for point of care use.

Wall mount

Accessory to attach the Trophon EPR® to a wall. Particularly useful for clinics with space constraints. and also signal successful disinfection. The indicator is used each cycle and provides an annuity revenue stream.

2011 Chairman's letter

I have pleasure in presenting Nanosonics' 2011 Annual Report. This past year was marked by the emergence of Nanosonics as a recognised global technology company, culminating in a North American partnership with GE Healthcare. The successful launch of the upgraded Trophon EPR® in the world's most lucrative market is the ultimate validation of not only Nanosonics' technology, but also the team's ability to execute on the delivery of world class products.

GE Healthcare is the leading supplier of ultrasound equipment in the US and Canada and has global market leadership in key obstetric and gynaecological applications. GE Healthcare is now actively promoting the benefits of the Trophon EPR® providing a complete ultrasound transducer disinfection system that is unique, fast, easy to use, environmentally friendly and quality assured.

The Trophon EPR® is the next generation in Ultrasound Transducer Disinfection

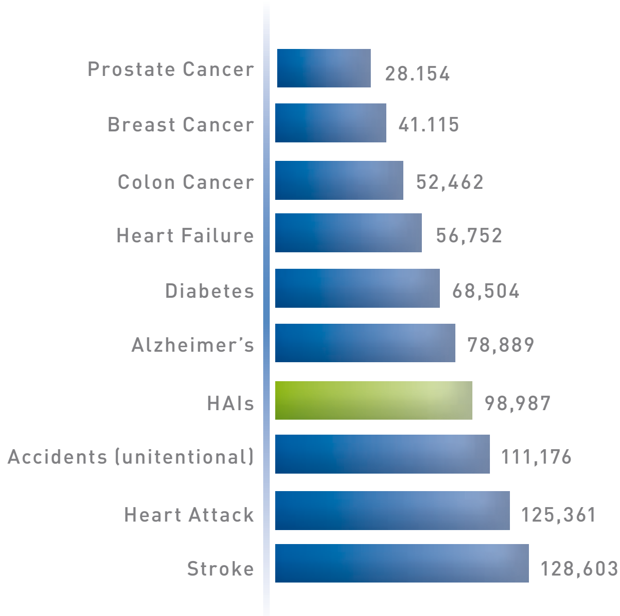
imagination at work

The GE Healthcare team have been providing consistent feedback as to the excellent synergy between GE Healthcare's products and the Trophon EPR® system in terms of providing a complete offering to their customers across North America. Early indications suggest that the Trophon EPR® system is well positioned to become the new 'standard of care' for both patient protection from cross infection and maintaining the optimal condition of ultrasound probes.

The ability of the Trophon EPR® to disinfect the transducer, shaft and handle positions it uniquely, with no known emerging or approved competitor. The Trophon EPR® is validated for its effectiveness and compatibility with probes manufactured by each of the world's major original equipment manufacturers.

Awareness of the cost of Healthcare Associated Infections (HAIs) continues to grow with recent data showing that HAIs are the 4th highest cause of death in the United States and that HAIs result in increased average length of stay for a patient from around 5 days to around 22 days[1]. In parallel, there has been a rapid development of medical devices which require "low-temperature" re-processing. Nanosonics is at the forefront of the development of disinfection and sterilisation solutions to meet this rapidly changing healthcare model.

Leading Causes of Death (US)



Impact of HAIs on LOS (Length of Stay)

The Nanosonics Trophon EPR® is the world's first fully automated 'point of care' solution for the disinfection of ultrasound transducers. This represents the first of a stream of products to be launched that leverage the knowledge and expertise gained with the successful commercialisation of the Trophon EPR®.

Microbial control is fast maturing as a well-defined global market opportunity. Billions of dollars have been invested by some of the world's leading companies in acquiring microbial control businesses and technologies. In conjunction with this trend, the market is becoming increasingly focussed on both the OH&S and environmental requirements in terms of future product purchasing guidelines. Clear feedback being received regularly indicates much of the market will move away from toxic chemicals in clinical situations in the near term. Concern is growing over the use of toxic chemicals in clinical situations and the Company is witnessing increasing demand for 'greener' and safer product solutions such as that provided by the Trophon EPR®.

Nanosonics has set a new paradigm for its environmentally friendly technologies and has demonstrated that it has delivered 'on a cleaner, greener system' which is now recognised by regulatory authorities, distributors and customers throughout the world. Every aspect of our company's activities from product design, manufacturing, packaging and operations are focussed on the dual objectives of delivering better and more cost effective healthcare, whilst maintaining the highest standards of OH&S and environmental safety.

The "NanoNebulant®" platform technology is highly scalable to a number of other applications in healthcare, commercial, industrial and safety markets. The development of the Trophon EPR® system has generated significant and valuable new intellectual property, the components of which can be relatively quickly leveraged into new devices and applications. Nanosonics has built and successfully tested a number of 'prototype devices' which address several market opportunities; many of these are in excess $500 million per annum and include 'space decontamination' and point of care medical device reprocessing.

The company is in discussions with a number of high profile global companies who are interested in a range of applications in healthcare and beyond. Such strategic partnerships may well involve not only investment, but additionally there may be potential for collaborative development and access to existing worldwide customers. It is anticipated that development times and the regulatory paths to market will substantially benefit from the experience gained by Nanosonics in developing the NanoNebulant® platform and commercialising the Trophon EPR® system.

The Board and the executive team are working collaboratively to execute the scale-up of its production capacity both within its existing facilities and in the planning for new global headquarters and manufacturing facility. Early success in the scale-up of production has been well demonstrated by the company's ability to ship devices to GE Healthcare for its North American launch on time and in the quantities required.

The company's management team has been greatly expanded over recent months with a number of experienced executives joining Nanosonics. Dr Ron Weinberger was appointed as CEO in May 2011 and joined Nanosonics in August 2004 as General Manager, Innovation and Technology and was appointed Executive Director in July 2008. Dr Weinberger has consistently made a significant contribution to the development of the Trophon EPR® and a number of the key technologies. He has been named as a co-inventor in several of its patents and applications.

I am pleased to report that Nanosonics maintains a strong balance sheet and remains debt free. The company holds significant cash reserves and has begun to generate meaningful early revenue. The markets for our launch product, Trophon EPR®, are now validated and Nanosonics has put in place distribution agreements with a number of highly regarded companies throughout the world. The partnership with GE Healthcare gives us priority access to a global customer base and GE Healthcare is actively promoting our products in markets throughout the globe.

The roadmap for the company is clear, both in terms of the growth of existing and future products. Our aim is to '**make money while doing good**'; that is, delivering better healthcare outcomes for our customers and their patients whilst delivering a stream of innovative, safer and greener technologies to the world market.

I take this opportunity to thank my fellow Board members whose tireless efforts have greatly assisted to bring Nanosonics onto the world stage. Most importantly I'd like to thank and recognise every member of the Nanosonics team who have helped create both world class products and a company that is emerging as one of Australia's global success stories.

Maurie Stang

Non-Executive Chairman

Sydney

26 August 2011

Trophon EPR® Key Benefits:

1. **New standard in high level disinfection: validated, measurable and recorded disinfection**
2. **Fast: 7 minute cycle time - single button operation, more efficient workflow**
3. **Cost effective: lower cost than manual operation**
4. **Safe: no operator and patient exposure to harmful chemicals**
5. **Outstanding materials compatibility: reduced damage to probes**
6. **Environmentally friendly solution: FDA approved**
7. **No post-rinsing: only by-products are water and oxygen**
8. **Easy and safe management of consumables: ~ 40 cycles per cartridge**

Reference:

1. Savage, B. et al (2011). The cost of healthcare acquired infections; Measured in lives, Reputations and dollars. GE Healthcare IT monograph.

2011 saw the successful fusion of the company's R&D, manufacturing, regulatory and commercial operations culminating in FDA approval and North American launch of the Trophon EPR®

In February 2011 Nanosonics achieved the critical milestone of FDA 510(k) approval to market the Trophon EPR® and the Chemical Indicator in the United States consistent with recently announced projections. In parallel, Nanosonics completed an exclusive agreement with GE Healthcare for the distribution of the Trophon EPR® and associated accessories and consumables in North America.

The US launch commenced in June 2011 and customer feedback has been consistently positive, validating the scale of the opportunity for Nanosonics and GE Healthcare in the world's largest ultrasound market. Nanosonics is now responding with a significant investment in scaling up its capability to fulfil demand globally via its network of highly regarded distribution partners.

Nanosonics: The emerging leader in advanced 'point of care' disinfection

The Trophon EPR® has many advantages compared to the legacy alternatives for the disinfection of ultrasound equipment. The experience with launch customers in the Australian and New Zealand markets has demonstrated the universal acceptance of the benefits of the Trophon EPR® automated reprocessing. Several hundred units have been sold and installed in domestic healthcare facilities including Australia's largest diagnostic imaging group, I-MED Network, Sydney IVF, Queensland Health and numerous practices and hospitals across the country. Importantly, in each market where the Trophon EPR® has been introduced there has been consistent feedback that the Nanosonics' technology solves a series of pressing issues for our customers. Specifically, occupational health and safety, standardised procedures, patient safety and improved work flow, in a cost effective and environmentally friendly integrated solution.

Roadmap for innovation

The validation of Nanosonics' platform technology (NanoNebulant®) and its strong intellectual property portfolio now ideally positions the company to direct its R&D activities towards a number of significant commercial market opportunities in healthcare and beyond. The Company has previously reported that it is in discussions with a number of significant global companies for the joint development of several new products. A number of these target markets represent commercial potential for Nanosonics that is equal to or greater than the market for the Trophon EPR®. Nanosonics continues to invest in the development of new chemical technologies which would further expand the Company's scope.

North American partnership with GE Healthcare

North America represents approximately one-third of the A$1 billion market opportunity and the strategic partnership with GE Healthcare gives immediate access to this vast market with a global market leader in ultrasound. GE Healthcare has major medical device customers across North America and has already opened doors with a number of large internationally recognised medical facilities. Feedback from the US market confirms that the opportunity for sales exceeds its initial expectations. The annuity revenue from consumables for the disinfectant and chemical indicator is tied to the 500 million annual ultrasound procedures globally and is an attractive model for the healthcare giant.

Each of the major global ultrasound manufacturers has access to the Trophon EPR® in North America through the GE Healthcare master distributorship. Nanosonics believes it is well placed to meet the needs of all of the ultrasound market in North America with not only its unique Trophon EPR® system but also with a range of innovative ultrasound accessories.

Early US and European customer feedback confirms Nanosonics' feedback from the domestic market that the Trophon EPR® provides multiple customer benefits and has a significantly lower cost of ownership than existing, hazardous wet chemistries. Savings include improvements in work flow due to the rapid process, reduction in the number of probes required due to greater turnaround times, no requirement for costly sterile water or expensive personal protection equipment, no need for fume hoods and ventilation and reduction in warranty and service costs resulting from probe damage.

Additionally, the US government is focussing on infection control in part due to the huge financial price tag of US$35-88 billion[1] spent annually on Healthcare Associated Infections (HAIs). Hospital analysts are continuously looking for ways to reduce costs while increasing patient care quality in the manner that the Trophon EPR® achieves. The National Quality Strategy serves as the coordinating focus aimed at reducing harmful preventable conditions in the healthcare setting.

US hospitals no longer receive reimbursement for most HAIs and litigation in response to HAI is becoming a significant economic burden. HAIs are becoming reportable in the US similar to the UK and hospitals will soon be financially penalised by Medicare if their rate of HAIs is significant[1]. All of these factors provide an ideal environment to promote the Trophon EPR® which has all the qualities to meet this changing government led environment.

To support our North American efforts we have employed two key team members in the US: Ron Bacskai, President of Nanosonics Inc., who is tasked with overseeing our US operations and coordinating the key drivers of our partnership with GE Healthcare; and John Corbett, North American Program Manager who is responsible for providing on the ground training of GE Healthcare personnel, service infrastructure support and customer relations. Mr Corbett is located in the GE Ambassador site in Indiana, where GE Healthcare is making significant investment in developing dedicated facilities to service the Trophon EPR®, further highlighting GE Healthcare's commitment to ensuring the long term success of the Trophon EPR®.

"Compared to existing disinfection processes, the Trophon EPR® offers a safer, faster and more convenient solution for high-level disinfection."

imagination at work

Regulatory drivers for growth

In the last year there have been significant changes in the regulatory and compliance landscape that will dramatically enhance the revenue opportunities for Nanosonics. Many of these changes are rapidly evolving now, which Nanosonics had originally anticipated would occur over time. It is apparent that that an earlier 'tipping point' is occurring which provides significant prospects for the short term adoption of the Trophon EPR® as the new and only global 'gold standard of care'.

ASUM, the Australian Society for Ultrasound and Medicine that provides the guidelines for member sonographers and physicians, has recently released its revised guidelines for the disinfection and care of ultrasound probes[2].

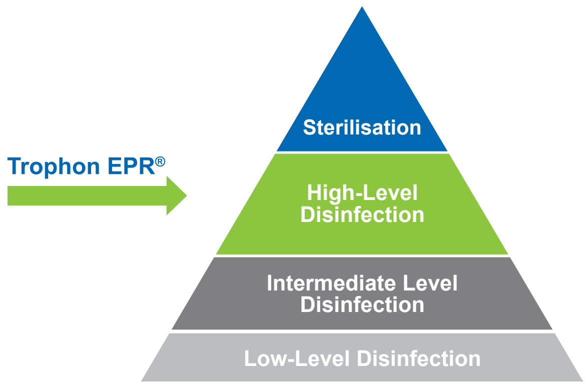
Previously non-TGA approved processes have been clearly disqualified with the comment "An approved automated system utilising hydrogen peroxide can be utilised. No rinsing is required at the completion of the cycle". Recognition of the Trophon EPR® by this internationally recognised body has had a strong impact on product demand locally.

This impetus is also present in the US. Recent medical device patient infection cases in the US[3] have turned the attention of the Congress and Senate to the dangers of inappropriate disinfection procedure of medical devices.

High-Level Disinfection (HLD) for intra-cavity ultrasound probes is a regulatory and legal requirement mandated by the FDA. Medical practices in the USA must comply with HLD of intra-cavity ultrasound probes in order to receive accreditation by the premier body, The Joint Commission[4]. It is acknowledged by internationally recognised US medical facilities that the Trophon EPR® is the only device that can meet the requirements for quality assurance, record keeping and total probe HLD that complies with these accreditation requirements.

The Trophon EPR® utilises a hydrogen peroxide solution as the basis of its disinfection technology, which is recommended by the US Centre for Disease Control and Prevention: "Probe high-level disinfection (e.g., hydrogen peroxide) ... not toxic to staff, patients ... should be used until the effectiveness of alternative procedures ... is demonstrated by well-designed experimental scientific studies."

Healthcare Infection Control Practices Advisory Committee (HICPAC). (2008). Retrieved May 2011, from Center for Disease Control and Prevention: http://www.cdc.gov/hicpac/pdf/guidelines/Disinfection_Nov_2008.pdf



"Recently, the FDA recommended the use of hydrogen peroxide as a dependable high-level disinfectant which is active against ...bacteria, yeasts, fungi, viruses, and spores. It is also not toxic to staff, patients, probes, and retrieved cells. ...recommended that probes be high-level disinfected...at a minimum."

Rutala, W., Weber, D., & the Infection Control Practices Advisory Committee, Guideline for Disinfection and Sterilization in Healthcare Facilities, 2008

Initiatives to increase production capacity

Nanosonics is actively reconfiguring the production space at its Alexandria head office campus that will progressively scale-up production capacity in a number of planned step changes. Near term capacity has been successfully upgraded under the direction our new Head of Manufacturing, Mr Gerard Putt. Mr Putt has implemented a number of physical and procedural improvements which set the stage for continued improvement and expansion. The Company is committed to, and has progressed the identification and selection of new corporate and manufacturing headquarters to be based in Sydney, Australia. Further, Nanosonics has confirmed that additional capacity with 3rd party high volume medical device manufacturers with appropriate accreditation is available, if required.

Nanosonics has appointed Applied Laboratories Inc., in Columbus, Indiana as its US contract filler for the Sonex-HL consumable cartridges. Applied has excellent facilities with dedicated lines for our product and has extensive experience with FDA audits. This increases the number of contract fillers to three with locations in Europe, Australia and the US, providing rapid access to product in each of these continents.

Ecoimagination®

Ecoimagination® is a GE initiative and represents GE's commitment to cleaner, greener technologies. GE has found alignment with Nanosonics' philosophy of improving human healthcare standards whilst producing products that offer best practice in environmental and human safety.

The Trophon EPR® has been designed and manufactured with almost complete recyclability in mind. The product complies with the European WEEE directive and the Company is working towards full RoHS compliance, both internationally recognised recycling initiatives.

The 'green' nature of the product is now seen globally as meaningful dimension of the selection criteria for healthcare facilities worldwide. In keeping with this philosophy, Nanosonics is taking steps to improve its carbon footprint and use renewable energy sources where possible.

Our people

Nanosonics prides itself on its innovation, diversity and fostering an environment that acknowledges and rewards both individual and team contributions. Several of the enabling technologies that have underpinned our launch products have come from 'unofficial' initiatives that have stemmed from individuals thinking 'outside the box' rather than being constrained by rigid paradigms surrounding product development. All of this has been achieved whilst maintaining the highest standard of accreditation, regulatory compliance and quality

Nanosonics' employees share based participation scheme continues to grow and attract some of the brightest candidates from the medical device and technology sector.

I would like to sincerely thank the Board, our team and advisors for their exceptional contributions and successes during the year.

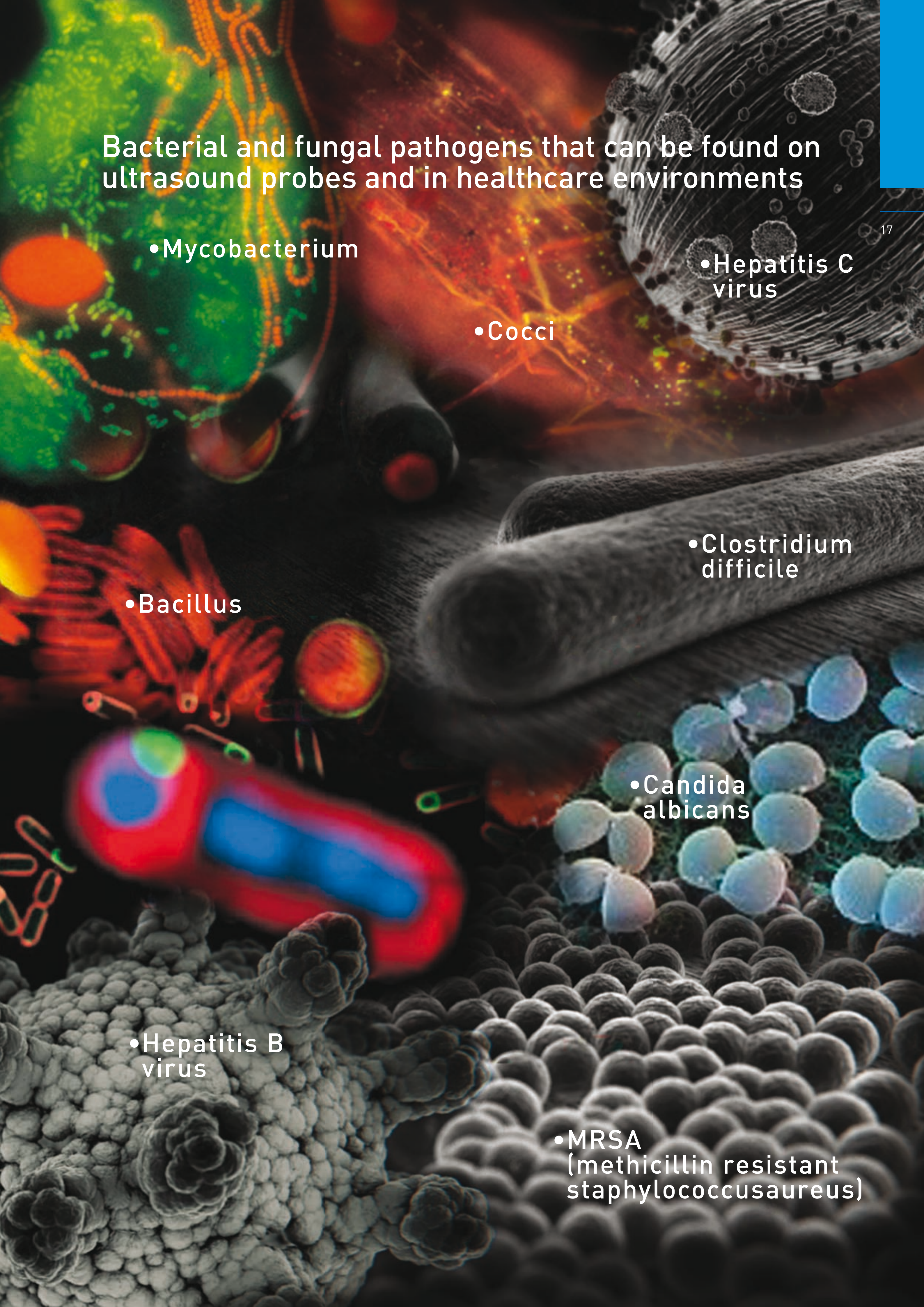
The vision for Nanosonics remains clear: to focus on superior returns to our shareholders whilst delivering the highest standards of healthcare and microbial control through a stream of innovative products.

R. Weinberger

Dr Ron Weinberger
Executive Director and CEO
Sydney
26 August 2011

References:
1. Savage, B. et al (2011). The cost of healthcare acquired infections; Measured in lives, Reputations and dollars. GE Healthcare IT monograph.
2. Statement on the disinfection of transducers. Australasian Journal of Ultrasound and Medicine,14 (2) pages 35-37.
3. US Medicine Website:
http://www.usmedicine.com/articles/nearly-half-of-all-department-of-veterans-affairs-facilities-not-in-compliance-with-proper-safety-protocols.html
4. Joint Commission Accreditation, 2010 Standards for Diagnostic Imaging Services, IC1-IC11.

Bacterial and fungal pathogens that can be found on ultrasound probes and in healthcare environments



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 since November 2000.

Mr Stang is member of the audit and financial risk management committee, the governance and nomination committee and the 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

Current: Non-Executive Chairman of Aeris Environmental Limited (ASX: AEI) since 2002.

Related parties

Details of transactions in the financial year ended 30 June 2011 between the Group and entities which are considered to be director-related parties are set out in the directors' and key management personnel disclosures note to the financial report.

Ron Weinberger BSc (Hons), PhD

Chief Executive Officer

Dr Weinberger joined the Company in August 2004 and was appointed Executive Director in July 2008. Dr Weinberger was appointed Chief Executive Officer in May 2011.

Responsibilities

Dr Weinberger has executive responsibility for the overall leadership of the business and the implementation of its strategies. Dr Weinberger is also Chairman of the Company's advisory board

Skills, experience and expertise

Dr Weinberger 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 technology patents which underpin the Company's platform technology. Ron has extensive experience across all aspects of the business having driven key strategies during it's growth phase.

Other current and former directorships in last 3 years

No ASX-listed companies.

Maurie Stang

Information on the directors, company secretary and senior management (continued)

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

Non-Executive Director

Dr Fisher has been a member of the board since 30 July 2001.

Dr Fisher is a member of the remuneration committee and he is a member of the audit and financial risk management committee and the governance and nomination committee.

Skills, experience and expertise

Dr Fisher is founding partner 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 USA and manufacturing operations in Denmark. Prior to Peptech, Dr Fisher spent 10 years with Pharmacia AB (now part of Pfizer, Inc.), including five years at their head office in Sweden.

Other current and former directorships in last 3 years

Current: Managing Director Aeris Environmental Limited (ASX: AEI) since May 2011.

Ron Weinberger

David Fisher

Richard England FCA, MAICD

Non-Executive Director

Mr England was appointed a director on 5 February 2010. Mr England is Chairman of the audit and financial risk management, remuneration and the governance and nomination committees

Skills, experience and expertise

Mr England is a chartered accountant and professional non-executive director. He has over 30 years' experience in accounting and financial services, as well as considerable experience with early stage biotech companies. From 1998 to 2006 Mr England was chairman and a director of Gropep Limited, an Australian biotech company which grew successfully from start-up to be acquired in 2006 by the Danish company Novozymes A/S. From 2003 to 2007, Mr England was a director of ITL Limited, an Australian company which designs and manufactures medical devices and procedure packs for global healthcare markets.

Other current and former directorships in last 3 years

Current: Chairman of Ruralco Holdings Limited (ASX: RHL), appointed chairman in 2002 with a period as Deputy Chairman between June 2006 and February 2007; Chairman of Chandler Macleod Group Limited (ASX: CMG), appointed a director February 2008 and Chairman since May 2008; and director of Macquarie Atlas Roads Limited (ASX: MQA) since June 2010.

Former: Director of Healthscope Limited from October 1996 to October 2010; director of Choiseul Investments Limited; and director of St. George Bank Limited from September 2004 to December 2008.

Richard England

Information on the directors, company secretary and senior management (continued)

McGregor Grant BEc, CA, GAICD

Chief Financial Officer and Company Secretary

Mr Grant joined Nanosonics in April 2011 and is responsible for the overall financial management of the Company and, together with Dr Weinberger, has joint responsibility for investor relations. Mr Grant has over 15 years' of commercial experience in a number of senior roles in the medical device and healthcare industries located in Australia and the United States. Previously Mr Grant worked for Coopers & Lybrand in Australia and Europe.

Gerard Putt BSc

Head of Manufacturing

Mr Putt joined Nanosonics full-time in April 2011 after 18 months on Nanosonics' advisory board. Mr Putt has over 12 years' experience in the medical device industry as a leader of development, engineering and production teams at ResMed. As Head of Manufacturing at ResMed, Mr Putt acquired particular experience in the implementation of new products into manufacturing and rapid scaling of production to international market needs. Mr Putt has a strong background in medical device GMP, project management, engineering and entrepreneurial roles in medical, retail and building.

Ronald J Bacskai BSME, MBA (Hons)

President & CEO – Nanosonics Inc.

Mr Bacskai joined Nanosonics in 2010 and is responsible for supporting Nanosonics' operations in the United States. Mr Bacskai is an experienced executive having worked in multiple industries with a broad technical, marketing and sales, and technology commercialisation background. Mr Bacskai has significant experience as president, CEO and board member of several public and private organisations as well as serving on the advisory board of a specialty environmental firm.

Lisa Springer PhD GAICD

Head of Business Operations

Dr Springer joined Nanosonics in 2010 and is responsible for managing all aspects of Nanosonics' expansion globally. Dr Springer has over 14 years' experience in corporate strategy development, project management, technology commercialisation, business capitalisation and mentoring to R&D based businesses. Dr Springer was most recently the Principal and founder of Maia Partners, a corporate consultancy firm and previously held senior positions with ALZA Corporation, PricewaterhouseCoopers and Wilson HTM Investment Group. Dr. Springer holds several board seats and is a member of the Commonwealth Government Tax Concession Committee.

Michael Potas BE (E&C)

Head of Research, Design and Development

Mr Potas joined Nanosonics in August 2006 and has more than 16 years' experience in the development and commercialisation of new products and technologies. Mr Potas has been instrumental in the research, design and development of the Trophon EPR® and associated core intellectual property.

Rob Waring BEc. (Sydney), CA, FCIS, FFin, FAICD

Company Secretary

Mr Waring was appointed company secretary in October 2010. Mr Waring was company secretary of Nanosonics at the time of the Company's IPO in May 2007. He has 39 years' experience in financial and corporate roles, including 19 years in company secretarial roles for ASX-listed companies and 14 years as a director of an ASX-listed company. He is a director of the companies in the Spencer Hamilton Limited group, which provides secretarial and corporate advisory services to a range of listed and unlisted companies.

Photo from left to right: Alfred Mueller, Lisa Springer, Gerard Putt, Kirste Jarvis, Joe Buttacavoli, McGregor Grant, Ruth Cremin, Vincent Wang, Michael Potas, Ron Weinberger & Jianhe Chen. (not present: Ronald J Bacskai & Rob Waring)

Vincent Wang BSc, MSc, MBA

Head of Global Services

Mr Wang has over 11 years' experience in establishing and managing technical support and service repair function in global medical device markets. Before joining Nanosonics in May 2011, Mr Wang worked for Sonova Hearing Healthcare Group as Regional Service Operations Manager and at Cochlear as Regional Technical Service and Repair Manager.

Jianhe Chen MD, MSc

Quality Assurance Manager

Dr Chen has been with the Company since July 2009. Dr Chen has 9 years' experience in quality assurance and regulatory affairs in globalised medical device companies, in addition to broad skills and knowledge obtained in clinical practice and medical research. Dr Chen specialised in establishing, developing and maintaining the quality management systems for medical device manufacturers. Dr Chen has held senior leadership roles in various international medical device companies in the past 11 years.

Kirste Jarvis BA

Human Resources Manager

Ms Jarvis joined Nanosonics in 2009 and has over 14 years of human resources experience having worked in a variety of industry sectors including chartered accounting, media, logistics and banking.

Joe Buttacavoli BSc, CPA

Financial Controller

Mr Buttacavoli joined Nanosonics in 2008 and was acting CFO between October 2010 and April 2011. Prior to joining the Company, Mr Buttacavoli worked for Ernst & Young and served as a manager in the Assurance & Advisory Business Services division in the United States and Australia with a life sciences industry focus.

Ruth Cremin M.Sc

Regulatory Affairs Manager

Ms Cremin joined Nanosonics in June 2011 and has extensive regulatory affairs experience, having worked at Cochlear for over 4 years as a Senior Regulatory Affairs Specialist for the ANZ and Asia Pacific Regions. Prior to this role, Ms Cremin worked at Pfizer Australia as a QA & Regulatory Officer for 4 years and was also a Regulatory Affairs Associate with Bio-Medical Research Ltd in Galway, Ireland.

Alfred Mueller BA (Sales & Marketing)

International Sales Leader

Mr Mueller joined Nanosonics in July 2007 and is based at the Company's European headquarters in Hamburg, Germany. Mr Mueller has responsibility for international sales specifically, building strategic partnerships with distributors and OEM's. Mr Mueller has over 20 years of international sales and marketing experience in the medical device and healthcare industries including senior international sales and marketing positions at Parker Laboratories Inc. and Vital Signs Inc. (GE Healthcare).

Directors' report

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. Since March 2009, the Company has manufactured and distributed the Trophon® EPR ultrasound probe disinfector and distributed its associated consumables and accessories. Further information is included in the results of operations below, in the review of operations and in the financial statements. There have been no significant changes in the nature of these activities during the year.

Results of operations

Revenue from sales for the year amounted to $2,247,000 (2010: $763,000) and other income amounted to $1,052,000 (2010: $946,000). The net operating loss after income tax amounted to $11,214,000 (2010: $8,172,000). The Group incurred net cash outflows for the financial year of $8,766,000 (2010: $8,601,000 excluding net proceeds from the issue of shares) which were applied to ongoing business development and operations. Cash reserves at 30 June 2011 amounted to $12,356,000 (2010: $21,144,000). Other information on the operations of the Group and its business strategies and prospects is discussed in the review of operations on pages 13 to 16 of this 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.

Dividends – Nanosonics Limited

The directors do not recommend the payment of a dividend for the financial year ended 30 June 2011. No dividends were proposed, declared or paid during the financial year (2010: 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 2011 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 13 to 16. 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.

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:

Directors and committees of the board

Board of directors Nanosonics Limited
Maurie Stang, Non-Executive Chairman
David Radford, Executive Director, CEO (resigned 27 May 2011)
David Fisher, Non-Executive Director
Richard England, Non-Executive Director
Ron Weinberger, Executive Director, appointed CEO 27 May 2011

Audit and financial risk management committee
Richard England, Chairman
David Fisher
Maurie Stang

Governance and nomination committee
Richard England, Chairman
David Fisher
Maurie Stang

Remuneration committee
Richard England, Chairman
David Fisher

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, company secretaries and senior management is a part of the Directors' report and can be found on pages 18 to 21 of this report.

Retirement, resignation, appointment and continuation in office of directors and secretaries

(a) Directors

In accordance with the Constitution, Dr Fisher retires as a director at the next annual general meeting and, being eligible, offers himself for re-election.

Mr Stang retires as a director at the next annual general meeting and, being eligible, offers himself for re-election.

(b) Secretaries

Mr Rob Waring was appointed as company secretary on 1 October 2010 and continues in office at the date of this report.

Mr McGregor Grant was appointed as company secretary on 28 April 2011 and continues in office at the date of this report.

Mr Chris Grundy was company secretary from the beginning of the financial year until his resignation on 30 September 2010.

Meetings of directors

The number of directors' meetings, including meetings of the committees, held during the year ended 30 June 2011, 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	11	11	2	2	1	1	1	1
David Radford[1]	10	10						
Richard England	11	11	2	2	1	1	1	1
David Fisher	11	11	2	2	1	1	1	1
Ron Weinberger	11	11						

[1]David Radford resigned 27 May 2011
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 as at 30 June 2011 (2010: Nil).

Share-based payments

Shares issued under the DESP and options granted under 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 related to global commercialisation of its first product, the Trophon EPR® ultrasound probe disinfector.

Shares issued

During the year ended 30 June 2011 and to the date of this report the Company issued a total of 4,737,553 (2010: 29,470,085) new ordinary shares in Nanosonics Limited as detailed below. No amount was unpaid on any of the shares so issued.

Shares issued	Number of shares issued
Shares issued under Deferred Employee Share Plan (DESP)	102,403
Share options exercised under Share Option Plans	4,635,150
Total new shares issued	**4,737,553**

As at 30 June 2011 and at the date of this report there were 230,490,535 (2010: 225,753,032) ordinary shares in Nanosonics Limited on issue. Further information on issued shares is provided in the contributed equity and the share-based compensation notes to the financial statements.

Share options granted

During the financial year and to the date of this report, the Company granted, for no consideration, 3,160,000 (2010: 1,450,000) unquoted options over unissued ordinary shares in Nanosonics Limited. Further information on the grants are provided below, in the remuneration report on page 35 and in the share-based compensation note to the financial statements.

Share options granted	Number of options granted
Employee Share Option Plan (ESOP)	3,060,000
General Share Option Plan (GSOP)	100,000
Total share options granted during the year and to the date of this report	**3,160,000**

Shares under option

At the date of this report, there were 3,386,200 (2010: 6,263,000) unissued ordinary shares of Nanosonics Limited under option as detailed below. Further information on the options is provided in the share-based compensation note to the financial statements.

Share option plan	Number of shares under option
Employee Share Option Plan (ESOP)	3,032,700
General Share Option Plan (GSOP)	353,500
Total shares under option	**3,386,200**

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 their 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.

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.

	Ordinary shares	Options over ordinary shares
Maurie Stang	28,466,089	–
Richard England	25,000	50,000
David Fisher	812,705	–
Ron Weinberger	693,930	200,000

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums of $32,000 (2010: $35,168) to insure the directors, secretaries 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 and financial risk management 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, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

a) 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

b) 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 the Auditor's remuneration note 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 45 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 13 to 16), the information on the directors, company secretaries and senior management (on pages 18 to 21) and the remuneration report (on pages 35 to 43) is made and signed in accordance with a resolution of directors.

Richard England

Richard England
Director
Sydney
26 August 2011

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 with 2010 Amendments (2nd Edition, 2007) issued by the Australian Securities Exchange, as well as other prominent guidance on good governance.

This statement sets out Nanosonics Limited's corporate governance framework. Nanosonics Limited is committed to ensuring all its directors, officers, employees, advisers, contractors and consultants align with its integrity, objectivity, corporate governance and ethical standards.

Compliance

The Company supports the ASX Listing Rules and the Corporate Governance Principles and Recommendations with 2010 Amendments 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, with certain exceptions as noted below.

Further information is available in the Company's various Charters and Policies, mentioned below, copies of which are available on the Company's website.

This corporate governance statement was approved by the board and a copy is 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 Company and to provide effective oversight of its management for the benefit of all stakeholders.

The board acts on behalf of shareholders and is accountable to the shareholders for the overall strategy, governance and performance of the Company. 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 and senior executives. The respective roles and responsibilities of the board and senior executives, 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.

Roles of senior executives

The Company sets responsibilities and performance expectations for all senior executives, including executive directors, as described in information on directors, company secretary and senior management and in the remuneration report in the company's annual report.

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. The directors must be satisfied that the members of a committee are competent and will exercise their delegated functions in accordance with directors' duties. General requirements of board committees are:

- a committee is expected to meet as often as necessary to fulfil its obligations;
- a committee is authorised to seek the information and advice it needs, at the cost of the Company, to assist it in the performance of its obligations;
- a committee does not have executive powers in respect of its findings and recommendations;
- a committee is intended to have an independent director appointed as its chairman; and
- the membership and performance of each committee is assessed at least once every year by that committee and by the board.

Currently there are three committees of the board: the governance and nomination committee; the audit and financial 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 in the directors' report contained in the Company's 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.

Structure of the board

The current board consists of three non-executive directors and one executive director. 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 4 November 2009
- Dr David Fisher is an independent non-executive director: appointed 30 July 2001, re-elected 18 November 2008
- Mr Richard England is an independent non-executive director: appointed 5 February 2010, re-elected 3 November 2010
- Dr Ron Weinberger is the Chief Executive Officer (CEO): appointed as an executive director 2 July 2008, re-elected 3 November 2010

Details of each director, including their qualifications and experience, are set out in the information on the directors in the annual report and in the investor centre section of the Nanosonics website **www.nanosonics.com.au**

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 Stang is not considered to be an independent director because: he is a founder of the Company; he held executive office in the Company until March 2007; he is a major shareholder of the Company; and he is a director and/or shareholder of companies with which the Company had significant transactions during the year (refer to the directors and key management personnel disclosures note to the financial statements section of the annual report).
- Dr Weinberger is not considered to be an independent director as he is an executive of the Company.

- Dr Fisher is considered to be an independent director, except that he served as executive director for the period 14 December 2007 to 16 June 2008.
  On 9 May 2011 Dr Fisher was appointed as managing director of Aeris Environmental Limited where Mr Stang is the non-executive chairman.
- Mr England 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 a 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 Richard England (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 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 also evaluates the time required of non-executive directors to perform their duties.

Selection and appointment of directors

The governance and nomination committee is responsible for the identification and selection of suitable candidates for appointment as a director. The committee assesses potential directors against the following selection criteria:

- Integrity;
- Skills, experience and qualifications;
- Availability;
- Communication capabilities; and
- Community standing.

After assessment, candidates are recommended by the committee to the board.

Induction, education and access of directors

Every new director receives an appointment letter accompanied by:

- Director's Deed of Access
- Director's Handbook (containing Company policies and Charters)
- Induction training

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.

Board performance evaluation

The board requires that each director has the appropriate competencies to fulfil their role and that they perform effectively in their respective role and on the board. The governance and nomination committee is responsible for recommending a framework for the assessment and evaluation of the performance of each director individually, of each committee and of the board as a whole.

- **Board and directors**
  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 Company.
- **Committees**
  The performance of each of the board's committees is assessed annually by the chairman of the committee and by the chairman of the board to ensure that the committees and the board as a whole work effectively. The board receives the meeting minutes and an update from the chairman of each of the board's committees on an ongoing basis, setting out the committee's achievements based on their duties. The board reviews and approves the charters of each of the committees annually.

Executive performance evaluation

The Nanosonics Performance and Development Program requires individual appraisals by a director at least annually for all senior executives, including executive directors but excluding the CEO, who is assessed with the rest of the board. In accordance with that program, individual appraisals of the performance of all senior executives were undertaken by the CEO during the year.

Ethical and responsible decision making

Code of conduct and ethics

All directors, officers, employees, advisers, consultants and contractors of the Group are expected to act with integrity and objectivity and to maintain the highest possible ethical standards, which have been formalised and set out in the Company's Code of Conduct and Ethics. The Code of Conduct and Ethics can be found on the Company's website.

Securities trading policy

The Company has a Securities Trading Policy, which applies to all Designated Persons, comprising its directors, officers, employees, advisers, consultants 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.

Whistleblower Policy

The Company recognises its responsibilities to conduct its business in accordance with both Australian and internationally accepted practices and procedures. As part of this, the Company is committed to maintaining a culture where all directors, staff, contractors and consultants to the Company are encouraged to raise concerns about poor and/or unacceptable practices and misconduct.

The Company has a Whistleblower Policy to provide a process through which staff, contractors and consultants to the Company can express serious concerns and report misconduct.

Directors' interests and related party transactions

Directors' declarations of interests or conflicts of interest are recorded in the minutes of board meetings and included in the register of directors' interests. The register of directors' interests is formally tabled and reviewed at board meetings on a quarterly basis.

A transaction with a related party requires the prior approval of a non-executive director who has no interest in the transaction. Approval for a transaction is given only if the director is satisfied that the Company has ascertained that the selected goods or services to be supplied are equivalent or superior to similar goods or services available elsewhere and that the terms and conditions of the transactions are 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. Management is required to provide written evidence of the comparative assessments undertaken to satisfy these selection criteria. Contractual agreements for related party transactions are reviewed by the director for compliance with the same selection criteria.

Integrity in financial reporting

Financial systems and compliance

The chief executive officer and chief financial officer jointly confirm to the board that the declaration provided in the 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 financial risk management committee

The three members of the audit and financial risk management committee are: Mr Richard England (chairman), Dr David Fisher and Mr Maurie Stang. The Committee comprises only non-executive directors and has 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 financial risk management committee, as set out in detail in its Charter, is to provide advice and assistance to the board in fulfilling the following obligations for the Company's:

- audit, accounting and financial reporting;
- legal and financial regulatory compliance; and
- adequacy of and compliance with financial risk management policies and procedures.

The committee regularly reports to the board on all matters relevant to the responsibilities of the committee.

The audit and financial risk management committee is responsible for reviewing the integrity of the Group's financial systems and reporting and for overseeing the appointment, compensation and independence of the Company's external auditor.

Selection and appointment of external auditors

The audit and financial risk management committee is responsible for selecting and recommending the appointment of the external auditor. The committee considers a number of criteria in appointing the external auditor, such as audit approach, governance processes, key personnel and cost. The committee then provides the board with its recommendation.

External audit

It is the external auditor's role to provide an independent opinion that the Company's financial reports are true and fair and comply with the Australian Accounting Standards and the *Corporations Act 2001*. The external auditor performs an independent audit in accordance with the International Audit Standards. All services provided by the external auditor must be in accordance with the following principles that the external auditor should not:

- have a conflict of interest in the Company;
- audit its own work; or
- function as a part of management or as an employee of the Company.

Rotation of external audit partners

In line with current professional standards, the Company requires the external auditor to rotate after five years and cannot return for a further two years. Key audit staff are required to rotate every seven years.

Timely and balanced disclosure

The board has adopted a Continuous Disclosure and Shareholder Communications Policy 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 determining 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 becomes 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 Company's authorised spokespersons, no employee or associated person may comment publicly on matters that are market-sensitive or confidential to the Company.

The disclosure policy gives guidance as to the information that may need to be disclosed and how to deal with market analysts and the media. This policy clearly outlines who has the responsibility for approving public documents and acts as a spokesperson.

This policy is made known to all directors, officers, employees, advisers, consultants and contractors, who sign confidentiality agreements designed to prevent unauthorised disclosure of information.

The board has approved, as part of the Continuous Disclosure and Shareholder Communications Policy, the Company's policy to promote effective communication with its shareholders. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders through:

- annual and half-yearly reports;
- shareholder updates sent by email or mail;
- media releases, public announcements and investor briefings; and
- annual general meetings.

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.

The Company encourages shareholder participation, particularly attendance of the general meetings of the Company. The Company complies with the ASX best practice guidelines for the content of notices of meeting. The external financial auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit of the Company and the preparation and content of the auditor's report.

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 financial risk management committee charter
- Code of ethics
- Governance and nomination committee charter
- Securities trading policy
- Remuneration committee charter
- Whistleblower Policy
- Terms of appointment of non-executive director
- Information disclosure policy
- Profiles of directors and senior management
- Risk management policy
- Notices of annual general meetings
- Privacy Policy
- Annual reports
- 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 Company 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. The board is responsible for risk oversight and risk management and to ensure legal and regulatory compliance.

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 regularly reported to the board on the effectiveness of the Group's management of its material business risks.

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

Fair and responsible remuneration

The Company's remuneration philosophy and policies are set out in the remuneration report in 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: Mr Richard England (chairman), Dr David Fisher and Mr Maurie Stang. The committee is chaired by an independent director and has a majority of independent directors.

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 and fair and responsible rewards for individual performance. 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 remuneration committee is authorised to seek the information and advice it needs, at the cost of the Company, to assist it in the performance of its obligations. Advisers to the remuneration committee are appointed by the Committee itself and report directly to the committee.

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. The Company will not permit an executive director to have direct involvement in the determination of their own remuneration.

Details of the respective remuneration structures are set out in Part 1 the remuneration report in 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 the 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 a competitive advantage and a sustainable future.
The Group's 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 three non-executive directors, Mr Richard England (chairman), Dr David Fisher 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. 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.

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 may be 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 payments 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-cash 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 annually 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 bonuses, comprising a mix of cash and share-based payments, of up to 25% of their base pay, subject to the achievement of defined key performance indicators and overall company performance objectives.

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 part 3 of this report. Specific details of each of the three share-based compensation plans are also available on the Company's website.

As a result of changes to enabling legislation affecting current share-based compensation plans, the Company intends to seek members' approval for new plans which will better serve its remuneration objectives. Wherever practicable, the Company will 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. Employment contracts for key management personnel may be terminated by either party with three months' notice, except in the case of the CFO, where the Company is required to give four months' notice of termination, and except in the case of the Quality Manager, where the company is required to give one month's 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 ESOP, 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.

3,060,000 ESOP options were granted in the year under review (2010: Nil).

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 3 November 2010 and the approval is for a period of three years. Shareholder approval was also granted on 3 November 2010 to enable the Company to grant financial assistance under both the EESP and the DESP in accordance with the *Corporations Act 2001*.

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.

102,403 shares were issued under the DESP during the financial year (2010: Nil).

Details of share-based compensation included in director and key management personnel remuneration are set out in parts 7 and 8 of the remuneration report and in the share-based compensation note to the financial statements.

4. Directors and key management personnel

All the directors and key management personnel named in this report held office throughout the year ended 30 June 2011, except for:

Directors

David Radford – Executive director (resigned 16 May 2011)

Key management personnel

Michael Potas – Head of Research, design & development (appointed 23 March 2011)

Gerard Putt – Head of Manufacturing (appointed 27 April 2011)

McGregor Grant – Chief Financial Officer and Company Secretary (appointed 28 April 2011)

Arjang Safa – General Manager Manufacturing and Supply Chain (resigned 2 March 2011)

Chris Grundy – Chief Financial Officer and Company Secretary (resigned 30 September 2010)

There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

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, key management personnel and each of the five highest remunerated Company executives are set out below. No remuneration was paid 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.

Remuneration of directors and key management personnel

		Short-term benefits[1]		Post-employment		Share-based payments				
		Salary and fees $	Cash bonus $	Superannuation $	Long service leave $	Options $	Shares $	Termination payments $	Total $	Performance related %
Non-executive directors										
Maurie Stang	2011	90,003	–	–	–	–	–	–	90,003	–
	2010	50,007	–	–	–	–	–	–	50,007	–
Richard England	2011	60,000	–	–	–	4,950	–	–	64,950	–
	2010	18,333	–	–	–	–	–	–	18,333	–
David Fisher	2011	61,270	–	5,306	–	–	–	–	66,576	–
	2010	33,028	–	2,972	–	–	–	–	36,000	–
David Slack	2011	–	–	–	–	–	–	–	–	–
	2010	20,342	–	2,972	–	–	–	–	23,314	–
Executive directors										
David Radford	2011	267,913	7,384	17,095	–	102,000	–	12,645	407,037	27%
	2010	226,255	48,000	18,623	–	59,234	–	–	352,112	30%
Ron Weinberger	2011	207,186	4,837	15,395	6,276	–	10,628	–	244,322	6%
	2010	164,718	45,143	14,461	15,755	77,345	–	–	317,422	39%
Key management personnel										
Jianhe Chen	2011	140,613	3,420	12,197	–	–	–	–	156,230	2%
	2010	103,569	11,072	10,318	–	–	–	–	124,959	9%
McGregor Grant	2011	51,247	–	3,547	–	–	–	–	54,794	–
	2010	–	–	–	–	–	–	–	–	–
Chris Grundy	2011	86,664	4,894	3,867	–	88,210	–	33,465	217,100	43%
	2010	160,716	31,157	14,461	–	30,867	–	–	237,201	26%
Michael Potas	2011	123,176	3,836	11,086	–	5,693	4,999	–	148,790	10%
	2010	98,823	9,589	8,894	–	13,058	–	–	130,364	17%
Kirste Jarvis	2011	136,723	1,509	12,264	–	6,650	–	–	157,146	5%
	2010	121,717	9,810	6,688	–	6,532	–	–	144,747	11%
Gerard Putt	2011	46,711	–	2,767	–	–	–	–	49,478	–
	2010	–	–	–	–	–	–	–	–	–
Arjang Safa	2011	148,415	4,837	10,263	–	4,080	–	15,224	182,819	5%
	2010	160,672	48,336	14,461	–	34,395	–	–	257,864	32%

[1] There were no non-monetary benefits included in remuneration in the financial years 2011 and 2010.

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 using a Black-Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. A share-based payments reserve is created as part of shareholders' equity. 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 that 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, key management personnel and five highest remunerated Company executives which were unexpired on 30 June 2011:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk-free interest rate	Value of option
GSOP	Jul-07	17-Jul-11	$0.69	$0.30	45.73%	6.40%	$0.48
ESOP	Jul-07	17-Jul-11	$0.69	$0.75	45.73%	6.40%	$0.28
ESOP	Nov-07	30-Nov-11	$0.72	$0.75	46.02%	6.27%	$0.15
ESOP	Nov-08	17-Nov-12	$0.19	$0.30	51.58%	4.24%	$0.06
GSOP	Nov-08	17-Nov-12	$0.19	$0.30	51.58%	4.24%	$0.06
ESOP	Jun-09	16-Jun-13	$0.48	$0.30	58.75%	5.01%	$0.30
ESOP	Jun-09	26-Jun-13	$0.44	$0.35	59.06%	5.32%	$0.23
GSOP	Jun-09	26-Jun-13	$0.44	$0.35	59.06%	5.32%	$0.23
GSOP	Jan-10	5-Jan-14	$0.62	$0.55	71.04%	5.29%	$0.30
ESOP	Aug-10	16-Jun-14	$0.54	$0.54	74.24%	4.97%	$0.32
ESOP	Aug-10	19-Jul-14	$0.54	$0.56	74.87%	4.77%	$0.31
GSOP	Oct-10	1-Oct-14	$0.80	$0.78	77.58%	4.95%	$0.49
ESOP	Mar-11	19-Jul-14	$0.93	$0.56	77.97%	5.15%	$0.63
ESOP	Mar-11	23-Feb-15	$0.93	$0.92	80.48%	5.15%	$0.58
ESOP	May-11	28-Apr-16	$0.80	$0.85	73.62%	5.14%	$0.50

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, each of the key management personnel and each of the five highest remunerated Company executives are detailed below.

	Share plan, issue price	Number granted	Date granted	Number vested	Number forfeited	Number vesting in future financial years		
						2012	2013	2014
Key management personnel								
Michael Potas	DESP, $0.908	5,506	Apr 2011	5,506	–	–	–	–

In June 2009, 75,000 shares were issued to Ron Weinberger under the DESP. The shares vest in three equal tranches annually commencing 26th June 2010 and are forfeitable if the holder ceases employment before the vesting date.

Options granted

The vesting profiles as at 30 June 2011 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, each of the key management personnel and each of the five highest remunerated Company executives are detailed below.

	Option Plan, exercise price	Number granted	Date granted	Number vested	Number exercised	Number forfeited	Number vesting in future financial years[1]		
							2012	2013	2014
Directors									
Richard England	GSOP, $0.55	50,000	Jan-10	16500	–	–	16,500	17,000	–
David Radford[2]	ESOP, $0.56	200,000	Aug-10	–	–	200,000	–	–	–
	ESOP, $0.54	500,000	Aug-10	–	–	335,000	165,000	–	–
	ESOP, $0.30	500,000	Jun-09	295,000	295,000	170,000	35,000	–	–
	ESOP, $0.30	500,000	Nov-08	500,000	500,000	–	–	–	–
Ron Weinberger	ESOP, $0.56	200,000	Aug-10	–	–	–	66,000	68,000	66,000
	ESOP, $0.75	175,000	Apr-07	175,000	175,000	–	–	–	–
	ESOP, $0.20	1,000,000	Apr-07	1,000,000	1,000,000	–	–	–	–

Table continued on page 42

	Option Plan, exercise price	Number granted	Date granted	Number vested	Number exercised	Number forfeited	Number vesting in future financial years[1]		
							2012	2013	2014
Key management personnel									
Jianhe Chen	ESOP, $0.56	200,000	Aug-10	–	–	–	66,000	68,000	66,000
McGregor Grant	ESOP, $0.85	1,000,000	May-11	–	–	–	166,667	333,334	499,999[3]
Gerard Putt	ESOP, $0.85	400,000	May-11	–	–	–	66,667	133,334	199,999[4]
Chris Grundy	ESOP, $0.78	100,000	Oct-10	100,000	–	–	–	–	–
	ESOP, $0.35	100,000	Jun-09	100,000	100,000	–	–	–	–
	ESOP, $0.75	250,000	Jul-07	250,000	250,000	–	–	–	–
Michael Potas	ESOP, $0.35	75,000	Jun-09	49,500	24,750	–	25,500	–	–
	ESOP, $0.75	175,000	Apr-07	175,000	–	175,000	–	–	–
Arjang Safa	ESOP, $0.56	200,000	Aug-10	–	–	200,000	–	–	–
	ESOP, $0.35	350,000	Jun-09	115,500	115,500	234,500	–	–	–
	ESOP, $0.75	80,000	Nov-07	80,000	80,000	–	–	–	–
Kirste Jarvis	ESOP, $0.56	100,000	Aug-10	–	–	–	33,000	34,000	33,000
	ESOP, $0.35	75,000	Jun-09	50,000	–	–	25,000	–	–
	ESOP, $0.30	45,000	Nov-08	30,000	–	–	15,000	–	–

[1] 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.

[2] 200,000 options granted to Mr. Radford under the ESOP plan at exercise prices of $0.54 and $0.30 have not lapsed and will vest to Mr. Radford at the discretion of the Remuneration Committee.

[3] Includes 166,665 options to vest in 2015.

[4] Includes 66,665 options to vest in 2015.

8. Movements in share-based compensation

Shares

Details of shares granted as incentive remuneration to each director of the Company, each of the other key management personnel and each of the five highest remunerated Company executives named are detailed below.

		Value of shares	
		Granted in year $	Forfeited in year[1] $
Key management personnel			
Michael Potas	2010	4,999	–
	2009	–	–

[1] 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.

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, each of the other key management personnel and each of the five highest remunerated Company executives named are detailed below.

		Value of options		
		Granted in year [1] $	Exercised in year $	Forfeited in year $
Directors				
Richard England	2011	–	–	–
	2010	15,075	–	–
David Radford	2011	62,000	118,500	220,200
	2010	–	–	–
Ron Weinberger	2011	62,000	255,750	–
	2010	–	–	–
Key management personnel				
Jianhe Chen	2011	62,000	–	–
	2010	–	–	–
McGregor Grant	2011	500,000	–	–
	2010	–	–	–
Gerard Putt	2011	200,000	–	–
	2010	–	–	–
Chris Grundy	2011	49,000	93,000	–
	2010	–	–	–
Michael Potas	2011	–	5,693	15,750
	2010	–	–	–
Arjang Safa	2011	62,000	38,565	115,935
	2010	–	–	–
Kirste Jarvis	2011	31,000	–	–
	2010	–	–	–

[1] 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.

Contents of the financial report

For the year ended 30 June 2011

Auditor's independence declaration

UHY Haines Norton
Chartered Accountants

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 2011 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.Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney

Dated 26 August 2011

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Consolidated statement of comprehensive income

For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Continuing operations			
Sale of goods		2,247	763
Cost of sales		(981)	(284)
Gross profit		**1,266**	**479**
Other income			
Government grants		–	161
Interest income		1,052	785
Total other income	7	**1,052**	**946**
Operating expenses			
Staffing costs		6,772	4,929
Intellectual property		528	264
Quality & regulatory management		254	201
Business development		510	517
Premises, plant & equipment		2,025	1,442
External consultants & advisors		1,734	1,630
Other operating costs		2,416	614
Total operating expenses		**14,239**	**9,597**
Operating loss before income tax expense		**(11,921)**	**(8,172)**
Income tax benefit	9	707	–
Net loss after income tax expense attributable to owners of the parent entity		**(11,214)**	**(8,172)**
Other comprehensive income			
Foreign currency translation reserve		(22)	5
Income tax on items of other comprehensive income		–	–
Total comprehensive income loss for the period attributable to owners of the parent entity		**(11,236)**	**(8,167)**

Loss per share for losses attributable to ordinary shareholders of the Company:		Cents	Cents
Loss per share	31	(4.9)	(3.9)
Diluted loss per share	31	(4.9)	(3.9)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2011

	Notes	2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	10	12,356	21,144
Trade and other receivables	11	933	461
Inventories	12	1,610	1,571
Other current assets	13	212	189
Total current assets		**15,111**	**23,365**
Non-current assets			
Property, plant and equipment	15	1,522	1,313
Intangible assets	16	117	157
Other non-current assets	17	98	113
Total non-current assets		**1,737**	**1,583**
Total assets		**16,848**	**24,948**
Current liabilities			
Trade and other payables	18	1,757	1,004
Provisions	19	785	362
Total current liabilities		**2,542**	**1,366**
Non-current liabilities			
Total non-current liabilities		–	–
Total liabilities		**2,542**	**1,366**
Net assets		**14,306**	**23,582**
Equity			
Contributed equity	20	58,138	56,627
Reserves		1,158	856
Accumulated loss		(44,990)	(33,901)
Total equity		**14,306**	**23,582**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2011

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Accumulated loss	Total equity
	Note 20 $'000	Note 21 $'000	$'000	$'000	$'000
At 30 June 2009	41,425	802	3	(25,918)	16,312
Total comprehensive loss for the 2010 year				(8,172)	(8,172)
Transactions with owners in their capacity as owners					
Shares issued	15,639	(32)			15,607
Share issue cost	(657)				(657)
Share-based payment	220	78		189	487
Other reserves			5		5
At 30 June 2010	56,627	848	8	(33,901)	23,582
Total comprehensive loss for the 2011 year				(11,214)	(11,214)
Transactions with owners in their capacity as owners					
Shares issued	115				115
Share-based payment	1,396	324		125	1,845
Other reserves			(22)		(22)
At 30 June 2011	58,138	1,172	(14)	(44,990)	14,306

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,867	748
Receipts from government grants		–	161
Receipts from ATO for R&D tax concession		710	–
Payments to suppliers and employees (inclusive of GST)		(12,611)	(9,302)
Interest received		1,033	631
Net cash used in operating activities	**30**	**(9,001)**	**(7,762)**
Cash flows from investing activities			
Purchase of assets		(1,178)	(182)
Net cash used in investing activities		**(1,178)**	**(182)**
Cash flows from financing activities			
Proceeds from issue of shares and options		1,413	15,859
Transaction costs on issue of shares		–	(657)
Net cash provided by financing activities		**1,413**	**15,202**
Net increase (decrease) in cash and cash equivalents		**(8,766)**	**7,258**
Cash at the beginning of the financial year		**21,144**	**13,881**
Effects of exchange rate changes on cash and cash equivalents		(22)	5
Cash and cash equivalents at the end of year	**10**	**12,356**	**21,144**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2011

1. Parent entity disclosures

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

2. Corporate information

The financial report on pages 46 to 82 covers Nanosonics Limited as a consolidated entity consisting of Nanosonics Limited (the Company) and its subsidiaries (jointly the Group).

Nanosonics Limited is a publicly listed company, limited by shares, incorporated and domiciled in Australia and listed on the Australian Securities Exchange (ASX code: NAN). 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 13 to 16 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 26 August 2011.

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.

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, all financial information is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

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

(b) Basis 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 each year 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) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

(d) Foreign currency

(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 in other comprehensive income.

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 recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, 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 and sells medical devices and associated consumables and accessories to distributors.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the distributor. 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.

(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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Nanosonics Limited and its wholly owned Australian controlled entity are part of a tax consolidated group.

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 standalone 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 ongoing basis. Debts that 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

Classification

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. All of the Group's cash term investments are captured in this category. Cash term investments, which are highly liquid irrespective of their maturity dates, are classified as current assets, as they may not necessarily be held for their full term.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Receivables are disclosed in trade and other receivables (note 11) in the balance sheet.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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 .

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

(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:

Depreciation of property, plant and equipment	2011	2010
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 improvements	Lease term	Lease term
Service equipment	2 years	–

(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 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 liabilities – 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 35 and in note 32 to the financial statements.

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 program, 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 transferred within shareholders' equity, from the share-based payments reserve to accumulated profits/(losses).

The value of ESOP options that 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 transferred 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) Earnings 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.

(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 2011 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 2011. The new accounting standards and interpretations which are likely to affect the Group with effect from 1 July 2011 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 2009-12 Amendments to Australian Accounting Standards

ii AASB 9 Financial Instruments and 2009-11 Amendments Australian Accounting Standards arising from AASB 9

iii AASB 2010-4 Further Amendments to Australian Standards arising from the Annual Improvements Project

iv AASB 2010-5 Amendments to Australian Accounting Standards

v AASB 124 Related Party Disclosures

vi AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets

(y) Comparative figures

Where necessary, comparative amounts have been reclassified to reflect changes in disclosures in the current year.

4. 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 while 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 held the following financial instruments:

Financial assets	2011 $'000	2010 $'000
Cash and cash equivalents	3,532	1,599
Fixed rate notes	8,824	11,688
Floating rate notes	–	7,857
Receivables	933	461

Financial liabilities	2011 $'000	2010 $'000
Trade and other payables	1,757	1,004

Foreign exchange risk

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

	2011		2010	
	Euro €'000	USD $'000	Euro €'000	USD $'000
Cash at bank	152	108	52	120
Trade and other receivables	92	364	8	–
Trade and other payables	(37)	(56)	(51)	(34)
Net investment in foreign operation	25	50	25	–

Operational risk

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with company processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

An objective of the Company is to manage operational risk so as to balance the avoidance of financial losses and damage to Company's' reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of control to address operational risk is assigned to the audit and financial risk management committee. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with standards is supported by a program of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the audit and financial risk management committee and senior management.

Credit risk

Credit risk arises from holdings in cash, cash equivalents, trade and other receivables. The Group invests only in deposits and term 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. At 30 June 2011 the contractual maturity profiles of undiscounted cash flows from assets and financial liabilities were all less than one year (2010: $6,859,000 in cash investments maturing between one and five years).

5. Critical accounting estimates and judgments

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

6. Operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The Group operates in a single operating segment, being the healthcare equipment segment.

Types of products and services

The principal products and services of the healthcare equipment segment are the manufacture and commercialisation of infection control and decontamination products and related technologies.

Major customers

The Group has a number of customers to which it provides products and services. The most significant customer accounts for 70% (2010: 92%) of external revenue. The next most significant customer accounts for 15% of external revenue.

Geographical segments

Geographically, the Group operates in the Australian, European and North American markets. Australia is the home country of the parent entity. Operations in Europe commenced in August 2007 and in North America in March 2011.

Revenue from external customers by geographical location is detailed below.

Segment revenue	2011 $'000	2010 $'000
Australia	1,583	705
Other foreign countries	664	58
Total revenue	**2,247**	**763**

The analysis of the location of non-current assets other than financial instruments, deferred tax assets, pension assets is as follows.

Segment assets	2011 $'000	2010 $'000
Australia	1,719	1,545
Other foreign countries	18	38
Total assets	**1,737**	**1,583**

Segment information is prepared in conformity with the accounting policies of the Group as set out in note 3 and Accounting Standard AASB 8 *Operating Segments*.

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.

7. Other income

	2011 $'000	2010 $'000
Government grants	–	161
Interest income	1,052	785
	1,052	**946**

Government grants comprise payments under the Export Market Development Grant scheme and assistance with an overseas trade show. There were no unfulfilled conditions or other contingencies attaching to these grants.

8. Loss before income tax expense

The loss from ordinary activities before income tax includes:

	2011 $'000	2010 $'000
Expenses		
Depreciation and amortisation	1,010	769
Research and development costs	3,627	2,369
Rental expenses relating to operating leases	387	329
Share-based compensation	542	235

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.

9. Taxation

	2011 $'000	2010 $'000
(a) Income tax expense		
Operating loss from ordinary activities	11,921	8,172
The prima facie income tax benefit applicable to the operating profit (loss) is calculated at 30% (2010: 30%)	3,576	2,452
Research and development offset/(allowance)	272	(568)
Non-deductible items		
Equity based benefits	(163)	(79)
Entertainment	(11)	(4)
Other temporary differences	(199)	116
	3,475	1,917
Research and development tax offset received	710	–
Future income tax benefit not booked	3,472	1,917
Income tax benefit reported on the Consolidated Statement of Comprehensive Income	707	–
(b) Deferred tax assets		

The potential deferred tax assets in a controlled entity, which is a company, arising from tax losses and timing differences are only recognised when it is probable that future taxable amounts will be available to utilise those tax losses and temporary differences.

Estimated tax losses carried forward totalled $51,495,000 as at 30 June 2011 (2010: $39,910,000).

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

	2011 $'000	2010 $'000
Cash at bank and on hand	511	272
Deposits on call	3,021	1,327
Term deposits	8,824	11,688
Floating rate notes	–	7,857
	12,356	**21,144**

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 exposure to interest rate risk is discussed in note 4. 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

	2011 $'000	2010 $'000
Trade receivables net of allowance for impairment losses	720	301
GST receivable	199	138
VAT receivable	8	13
Other receivables	6	9
	933	461

Information about the Group's exposure to foreign currency risk in relation to trade and other receivables is provided in note 4.
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. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.
As at 30 June 2011, trade receivables with a nominal value of $124,000 (2010: $2,000) were past due by up to three months and considered impaired. The amount of the allowance for impaired losses was $124,000 (2010: Nil).

12. Current assets – inventories

	2011 $'000	2010 $'000
Raw materials and stores – at net realisable value	1,149	941
Work in progress – at net realisable value	73	133
Finished goods – at net realisable value	388	497
	1,610	1,571

Write-downs of inventories to net realisable values during the year ended 30 June 2011 amounted to $713,000 (2010: $16,000). The expense has been included in other operating costs in the income statement.

13. Current assets – other

	2011 $'000	2010 $'000
Prepayments	212	189

14. Parent company investments in controlled entities

			Equity holding%	
Name of controlled entity	Country of incorporation	Class of shares	2011	2010
Nanosonics Europe GmbH	Germany	Ordinary	100%	100%
Saban Ventures Pty Limited	Australia	Ordinary	100%	100%
Nanosonics Inc.	USA	Ordinary	100%	–

15. Non-current assets – property plant and equipment

	Laboratory fit-out	Laboratory equipment	Office furniture & equipment	Leasehold improvements	Manufacturing equipment	Service equipment	Computer equipment & software	Total
Year ended 30 June 2009								
Opening net book amount	22	62	296	269	960	–	247	**1,856**
Additions	–	39	24	24	37	–	61	**185**
Depreciation charge	(4)	(26)	(119)	(265)	(213)	–	(101)	**(728)**
Closing net book amount at 30 June 2010	18	75	201	28	784	–	207	**1,313**
At 30 June 2010								
Cost or fair value	343	267	761	453	1,073	–	336	**3,233**
Accumulated depreciation	(325)	(192)	(560)	(425)	(289)	–	(129)	**(1,920)**
Net book amount at 30 June 2010	**18**	**75**	**201**	**28**	**784**	**–**	**207**	**1,313**
Year ended 30 June 2010								
Opening net book amount	18	75	201	28	784	–	207	**1,313**
Additions	–	29	20	218	162	449	301	**1,179**
Depreciation charge	(1)	(35)	(74)	(116)	(226)	(369)	(149)	**(970)**
Closing net book amount at 30 June 2011	17	69	147	130	720	80	359	**1,522**
At 30 June 2011								
Cost or fair value	343	297	779	671	1,234	449	638	**4,411**
Accumulated depreciation	(326)	(228)	(632)	(541)	(514)	(369)	(279)	**(2,889)**
Net book amount at 30 June 2011	**17**	**69**	**147**	**130**	**720**	**80**	**359**	**1,522**

16. Non-current assets – intangible assets

	2011 $'000	2010 $'000
Development costs		
At cost	201	201
Accumulated amortisation	(84)	(44)
Net book value	**117**	**157**

Development costs relate to the Trophon® project and are carried at cost less accumulated amortisation. The intangible asset has been assessed as having a finite life and is amortised using the straight-line method over a period of five years. Amortisation of $40,000 is included in depreciation and amortisation expense in the income statement.

17. Non-current assets – other non-current assets

	2011 $'000	2010 $'000
Deposits and bonds	98	113

18. Current liabilities – trade and other payables

	2011 $'000	2010 $'000
Trade payables	814	476
Other payables	943	528
Total	**1,757**	**1,004**

19. Current liabilities – provisions

	2011 $'000	2010 $'000
Employee bonuses	447	86
Employee benefits – annual leave and long service leave	338	276
Total	**785**	**362**

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

230,490,585 ordinary fully paid shares (2010: 225,753,032)

Movements in ordinary shares on issue	Number of shares	$'000
At 30 June 2009	**196,282,947**	**41,425**
Share Placement	21,818,182	12,000
Share Purchase Plan	6,558,503	3,607
Less: share issue costs		(657)
Share options exercised	1,093,400	252
At 30 June 2010	**225,753,032**	**56,627**
Share options exercised	4,635,150	1,396
Shares issued	102,403	115
At 30 June 2011	**230,490,585**	**58,138**

All ordinary shares are fully paid. Ordinary shares carry one vote per share and 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 2011 there were 3,386,200 (2010: 6,263,000) options to acquire one ordinary share each outstanding, of which 655,700 (2010: 4,299,900) had vested and were exercisable.

Information relating to the Company's employee share-based payment schemes, including details of shares and options issued, options exercised and options lapsed during the financial year, as well as options outstanding at the end of the financial year, is set out in note 32.

Capital Management

Management controls the capital of the Group to ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital and financial liabilities supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

21. Reserves – employee equity benefits reserve

	2011 $'000	2010 $'000
Balance 1 July	**848**	**802**
Share-based payment (ESOP)	264	63
Share-based payment (GSOP)	60	15
Employee shares expense	–	(32)
Balance 30 June	**1,172**	**848**

The employee equity benefits reserve is used to record the value of share based-payments provided to employees, including KMP, as part of their remuneration. Refer to note 32 for further details of these plans.

22. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2010: Nil).

23. Financial instruments

(a) Interest rate risk exposures

	Notes	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
2011							
Financial assets							
Cash		3,532	–		–	–	**3,532**
Floating Rate Note		–	–	–	–	–	**–**
Term Deposits		–	8,824	–	–	–	**8,824**
Receivables	11	–	–	–	–	933	**933**
Prepayments	13	–	–	–	–	212	**212**
Total financial assets		**3,532**	**8,824**	**–**	**–**	**1,145**	**13,501**
Weighted average interest rate		4.58%	6.22%				
Financial liabilities							
Payables	18	–	–	–	–	1,757	**1,757**
Net financial assets (liabilities) 2011		**3,532**	**8,824**	**–**	**–**	**(612)**	**11,744**
2010							
Financial assets							
Cash		1,599	–	–	–	–	**1,599**
Floating Rate Note		7,857	–	–	–	–	**7,857**
Fixed Rate Notes		–	11,688	–	–	–	**11,688**
Receivables	11	–	–	–	–	461	**461**
Prepayments	13	–	–	–	–	189	**189**
Total financial assets		**9,456**	**11,688**	**–**	**–**	**650**	**21,794**
Weighted average interest rate		5.08%	5.33%				
Financial liabilities							
Payables	18	–	–	–	–	1,004	**1,004**
Net financial assets (liabilities) 2010		**9,456**	**11,688**	**–**	**–**	**(354)**	**20,790**

At 30 June 2011, if interest rates had increased by 75 basis points and/or decreased by 100 basis points from the year end rates with all other variables held constant, post-tax loss for the year would have been $84,000 lower/$112,000 higher mainly as a result of higher/lower interest income from cash assets.

(b) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and liquidity risk is provided in note 4.

24. Capital and leasing commitments

	2011 $'000	2010 $'000
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	99	195
One year or later and no later than five years	155	189
	254	384

The Group does not have any non-cancellable capital expense commitments.

25. Contingent liabilities

Government grants received

The Company 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 Group's operating income in previous years. Certain details of the grants are shown below.

	Project completion date	Interest rates applicable to repayments	Total grant income received over the project life $'000
R&D Start Grant	30 June 2007	5.395%	1,889
Commercial Ready Grant	30 September 2007	5.665%	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 2011.

26. Employee benefits

	2011 $'000	2010 $'000
Aggregate liability for employee benefits, including on-cost:		
Payables	78	256
Employee benefits provision	338	276

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 to the Company and its related practices:	2011 $'000s	2010 $'000s
Audit services		
UHY Haines Norton in Australia:		
Audit and review of financial reports	37	30
Total remuneration for audit services	**37**	**30**
Assurance related services		
UHY Haines Norton in Australia:		
Audit of regulatory returns	4	3
Total remuneration for assurance related services	**4**	**3**
Taxation services		
UHY Haines Norton in Australia:		
International taxation services	–	14
Total remuneration for taxation services	**–**	**14**
Total remuneration for non-audit services	**4**	**17**

28. Related party disclosures

(a) Parent entities

The parent entity within the Group is Nanosonics Limited which at 30 June 2011 owned 100% of the issued ordinary shares of Nanosonics Europe GmbH, Saban Ventures Pty Limited and Nanosonics Inc.

(b) Subsidiaries

Interests in subsidiaries are set out in note 14.

(c) Directors and key management personnel

Related party disclosures in respect of directors and Key Management Personnel are set out in note 29.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2011 $'000	2010 $'000
Sales of goods and services		
Sale of products to related parties	1,583	705
Purchases of goods		
Purchases of goods and services from related parties	634	489
Superannuation contributions		
Contributions to superannuation funds on behalf of all employees	428	343
Other transactions		
Rent of premises and equipment from related parties	120	112

(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:

	2011 $'000	2010 $'000
Current receivables (supply of goods and services)	372	310
Current payables (purchases of goods and services)	44	79

(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 (2010: 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 (resigned 27 May 2011)

Dr Ron Weinberger, Executive Director and CEO (appointed CEO 16 May 2011)

Dr David Fisher, Non-Executive Director

Mr Richard England, Non-Executive Director

(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:

Mr Chris Grundy, Chief Financial Officer & Company Secretary (resigned 1 October 2010)

Dr. Jianhe Chen, Quality Assurance Manager

Mr McGregor Grant, Chief Financial Officer & Company Secretary (appointed 28 April 2011)

Mr Arjang Safa, General Manager, Manufacturing & Supply Chain (resigned 2 March 2011)

Mr Gerard Putt, General Manager, Manufacturing & Supply Chain (appointed 27 April 2011)

Mr Michael Potas, Head of Research, Design & Development (appointed 23 March 2011)

All of the above persons were employed by Nanosonics Limited and were respectively Directors and key management personnel for the year ended 30 June 2011, except for:

Key management personnel

Mr McGregor Grant (appointed 28 April 2011)

Mr Gerard Putt (appointed 27 April 2011)

Mr Michael Potas (appointed 23 March 2011)

(c) Directors and key management personnel compensation

	Group and Company	
	2011 $	2010 $
Director fees	211,273	121,691
Short term employee benefits	1,239,365	999,638
Post-employment benefits	100,063	78,268
Termination benefits	61,334	–
Share based payments	227,209	216,916
Total compensation	**1,839,244**	**1,416,513**
Total compensation includes total remuneration for directors of the parent entity of	**862,632**	**796,489**

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 Parts 5 to 8 of the Remuneration Report on pages 38 to 43.

(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 40 to 43.

(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 personnel of the Group, including their personally-related parties, are set out below.

Option holder		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	2011	–	–	–	–	–	–	–
	2010	–	–	–	–	–	–	–
David Radford[1]	2011	1,000,000	700,000	(705,000)	(795,000)	200,000	–	200,000
	2010	1,000,000	–	–	–	1,000,000	495,000	505,000
David Fisher	2011	–	–	–	–	–	–	–
	2010	–	–	–	–	–	–	–
Richard England	2011	50,000	–	–	–	50,000	16,500	33,500
	2010	–	50,000	–	–	50,000	–	50,000
Ron Weinberger	2011	1,175,000	200,000	–	(1,175,000)	200,000	–	200,000
	2010	1,175,000	–	–	–	1,175,000	1,175,000	–
Key Management Personnel								
Chris Grundy[2]	2011	350,000	100,000	–	(350,000)	100,000	100,000	–
	2010	350,000	–	–	–	350,000	198,000	152,000
Arjang Safa[3]	2011	430,000	200,000	(434,500)	(195,500)	–	–	–
	2010	430,000	–	–	–	430,000	168,300	261,700
Jianhe Chen	2011	–	200,000	–	–	200,000	–	200,000
	2010	–	–	–	–	–	–	–
McGregor Grant[4]	2011	–	1,000,000	–	–	1,000,000	–	1,000,000
	2010	–	–	–	–	–	–	–
Gerard Putt[5]	2011	–	400,000	–	–	400,000	–	400,000
	2010	–	–	–	–	–	–	–
Michael Potas[6]	2011	250,000	–	(175,000)	(24,750)	50,250	24,750	25,500
	2010	250,000	–	–	–	250,000	199,750	50,250

[1] Option holder resigned during the year and 200,000 options did not lapse and will vest to Mr. Radford at the discretion of the Remuneration Committee.
[2] Option holder resigned during the year and was granted 100, 000 options under the GSOP plan prior to termination.
[3] Option holder resigned during the year and all options not exercised then lapsed.
[4] McGregor Grant was appointed on 28 April 2011
[5] Gerard Putt was appointed on 27 April 2011
[6] Michael Potas was employed by the company on 7 August 2006 and was appointed Head of Research, Design & Development on 23 March 2011

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 38 to 43.

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
Directors					
Maurie Stang	2011	28,424,124	–	41,965	28,466,089
	2010	28,377,000	–	47,124	28,424,124
David Radford[1]	2011	125,207	795,000	(920,207)	–
	2010	116,117	–	9,090	125,207
Richard England	2011	25,000	–	–	25,000
	2010	–	–	25,000	25,000
David Fisher	2011	953,940	–	(141,235)	812,705
	2010	944,426	–	9,514	953,940
Ron Weinberger	2011	114,083	1,175,000	(595,153)	693,930
	2010	114,083	–	–	114,083
Key Management Personnel					
Chris Grundy[1]	2011	163,845	350,000	(113,845)	400,000
	2010	132,755	–	31,090	163,845
Arjang Safa[1]	2011	39,083	195,500	(234,583)	–
	2010	39,083	–	–	39,083
Jianhe Chen	2011	–	–	–	–
	2010	–	–	–	–
McGregor Grant[2]	2011	–	–	–	–
	2010	–	–	–	–
Gerrard Putt[2]	2011	18,500	–	–	18,500
	2010	–	–	18,500	18,500
Michael Potas[2]	2011	5,880	24,750	(25,124)	5,506
	2010	14,203	–	(8,323)	5,880

[1]Shareholder resigned during the year
[2]Shareholder appointed during the year
[3]Included in the balance are 75,000 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 June 2010 and are forfeitable if the holder ceases employment before the vesting date.

(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 2011 (2010 $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 2011 and 30 June 2010. 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	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	Regional Healthcare Group Pty Ltd	Products purchased, services received and products sold
Richard England	Angleterre Nominees Pty Ltd	Services received

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

	2011 $'000	2010 $'000
Amounts recognised as revenue		
Products sold	1,583	705
Amounts recognised as expenses		
Services received	168	78
Products purchased and services received	466	411
Rent of premises	120	112

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

	2011 $'000	2010 $'000
Assets		
Current receivables	372	310
Liabilities		
Current liabilities	44	79

30. Notes to the cash flow statements

(a) Reconciliation of cash	Notes	2011 $'000	2010 $'000
Cash and cash equivalents		12,356	21,144

For the purpose of the Statement of cash flows, 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 Statement of cash flow 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

	2011 $'000	2010 $'000
Operating loss after income tax	(11,214)	(8,172)
Adjustment for:		
Depreciation and amortisation	1,010	769
Share based payments	542	235
Changes in assets and liabilities		
(Increase)/decrease in receivables	(472)	7
(Increase)/decrease in inventories	(39)	(653)
(Increase)/decrease in other current assets	(19)	(21)
(Increase)/decrease in other non-current assets	15	(22)
Increase/(decrease) in creditors and borrowings	753	70
Increase/(decrease) in provisions	423	25
Net cash used in operating activities	(9,001)	(7,762)

(c) Credit standby arrangements unused

	2011 $'000	2010 $'000
Unused credit facility	–	–

31. Loss per share

	2011 Cents	2010 Cents
(a) Basic loss per share		
Loss attributable to ordinary shareholders of the Company	(4.9)	(3.9)
(b) Diluted loss per share		
Loss attributable to ordinary shareholders of the Company	(4.9)	(3.9)
(c) Losses used in calculating loss per share		
Net loss after income tax expense attributable to shareholders	(11,214)	(8,172)
(d) Weighted average number of shares used		
For basic earnings per share	227,184,185	211,432,508
For diluted earnings per share	227,184,185	211,432,508
(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 excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive. Details relating to the options are set out in note 32 to these financial statements.

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.

100,000 share options were issued under the GSOP during the financial year (2010:50,000 issued).

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.

2,560,000 share options were issued under the ESOP during the financial year (2010: 0 issued).

(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 these financial statements.

(c) Unexpired options

	ESOP		GSOP		All Option Plans	
Number of Options	2011	2010	2011	2010	2011	2010
Unexpired options as at 1 July	**4,553,000**	**5,563,500**	**1,710,000**	**1,985,000**	**6,263,000**	**7,548,500**
Granted during the year	3,060,000	–	100,000	50,000	3,160,000	50,000
Exercised during the year	(3,178,650)	(768,400)	(1,456,500)	(325,000)	(4,635,150)	(1,093,400)
Forfeited during the year	(1,199,650)	(242,100)	–	–	(1,199,650)	(242,100)
Expired during the year	(202,000)	–	–	–	(202,000)	–
Unexpired options as at 30 June	**3,032,700**	**4,553,000**	**353,500**	**1,710,000**	**3,386,200**	**6,263,000**
Number of holders as at 30 June	21	26	8	24	29	50

Set out below are details of unexpired options granted under the plans as at 30 June 2010:

Option Type	Exercise price	Grant date	Assessed fair value at grant date	Expiry date	Number at start of the year	Number granted during the year	Number exercised during the year	Number forfeited during the year	Number at end of the year	Number vested and exercisable at end of year
GSOP	$0.20	Jul-07	$0.54	17-Jul-11	40,000	–	(40,000)	–	–	–
GSOP	$0.30	Jul-07	$0.48	17-Jul-11	50,000	–	(50,000)	–	–	–
ESOP	$0.75	Jul-07	$0.28	17-Jul-11	250,000	–	(250,000)	–	–	–
ESOP	$0.75	Nov-07	$0.15	30-Nov-11	80,000	–	(80,000)	–	–	–
ESOP	$0.30	Nov-08	$0.06	17-Nov-12	500,000	–	(500,000)	–	–	–
ESOP	$0.30	Nov-08	$0.06	17-Nov-12	75,000	–	(15,000)	–	60,000	29,700
GSOP	$0.30	Nov-08	$0.06	17-Nov-12	50,000	–	–	–	50,000	33,000
ESOP	$0.30	Jun-09	$0.30	16-Jun-13	500,000	–	(295,000)	(170,000)	35,000	35,000
ESOP	$0.35	Jun-09	$0.23	26-Jun-13	1,295,000	–	(402,650)	(279,650)	612,700	345,800
GSOP	$0.35	Jun-09	$0.23	26-Jun-13	170,000	–	(16,500)	–	153,500	95,700
GSOP	$0.55	Jan-10	$0.30	5-Jan-14	50,000	–	–	–	50,000	16,500
ESOP	$0.54	Aug-10	$0.32	16-Jun-14	–	500,000	–	(335,000)	165,000	–
ESOP	$0.56	Aug-10	$0.31	19-Jul-14	–	900,000	–	(400,000)	500,000	–
GSOP	$0.78	Oct-10	$0.49	1-Oct-14	–	100,000	–	–	100,000	100,000
ESOP	$0.56	Mar-11	$0.63	19-Jul-14	–	200,000	–	–	200,000	–
ESOP	$0.92	Mar-11	$0.58	23-Feb-15	–	60,000	–	–	60,000	–
ESOP	$0.85	May-11	$0.50	28-Apr-16	–	1,400,000	–	–	1,400,000	–
Totals as at year end					3,060,000	3,160,000	(1,649,150)	(1,184,650)	3,386,200	655,700

(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 2011 included:

Option type	Exercise price	Grant date	Expiry date	Estimated share price at grant date	Expected price volatility of the company's shares	Expected dividend yield	Risk-free interest rate	Assessed fair value at grant date
GSOP	$0.30	Jul-07	17-Jul-11	$0.69	45.73%	0%	6.40%	$0.48
ESOP	$0.75	Jul-07	17-Jul-11	$0.69	45.73%	0%	6.40%	$0.28
ESOP	$0.75	Nov-07	30-Nov-11	$0.72	46.02%	0%	6.27%	$0.15
ESOP	$0.30	Nov-08	17-Nov-12	$0.19	51.58%	0%	4.24%	$0.06
GSOP	$0.30	Nov-08	17-Nov-12	$0.19	51.58%	0%	4.24%	$0.06
ESOP	$0.30	Jun-09	16-Jun-13	$0.48	58.75%	0%	5.01%	$0.30
ESOP	$0.35	Jun-09	26-Jun-13	$0.44	59.06%	0%	5.32%	$0.23
GSOP	$0.35	Jun-09	26-Jun-13	$0.44	59.06%	0%	5.32%	$0.23
GSOP	$0.55	Jan-10	5-Jan-14	$0.62	71.04%	0%	5.29%	$0.30
ESOP	$0.54	Aug-10	16-Jun-14	$0.54	74.24%	0%	4.97%	$0.32
ESOP	$0.56	Aug-10	19-Jul-14	$0.54	74.87%	0%	4.77%	$0.31
GSOP	$0.78	Oct-10	1-Oct-14	$0.80	77.58%	0%	4.95%	$0.49
ESOP	$0.56	Mar-11	19-Jul-14	$0.93	77.97%	0%	5.15%	$0.63
ESOP	$0.92	Mar-11	23-Feb-15	$0.93	80.48%	0%	5.15%	$0.58
ESOP	$0.85	May-11	28-Apr-16	$0.80	73.62%	0%	5.14%	$0.50

(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 program, 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*.

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.

(g) Shares granted

During the financial year there was one grant under the DESP. Details of shares granted under the DESP to the date of this report are set out below.

Share Plan	Share issue price	Grant date	Assessed fair value at grant date	Closing share price on grant date	Number granted
DESP	0.2880	23 March 09	0.2880	0.2950	336,424
DESP	0.4251	26 June 09	0.4251	0.4100	176,400
DESP	0.4251	26 June 09	0.4251	0.4100	75,000
DESP	0.9080	3 May 11	0.9080	0.8900	102,403
Total Employee Shares granted to date					690,227

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

(h) 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.

(i) 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.

(j) Shares on issue under employee share plans

	DESP		EESP		All Share Plans	
Number of Shares	2011	2010	2011	2010	2011	2010
Employee Shares on issue as at 1 July	**495,757**	**580,291**	**–**	**–**	**495,757**	**580,291**
Granted during the year	102,403	–	–	–	102,403	–
Withdrawn during the year	(226,736)	(78,654)	–	–	(226,736)	(78,654)
Forfeited during the year	–	(5,880)	–	–	–	(5,880)
Employee Shares on issue as at 30 June	**371,424**	**495,757**	**–**	**–**	**371,424**	**495,757**
Number of holders as at 30 June	39	28	–	–	39	28

(k) Expenses arising from share-based compensation transactions

	2011 $'000	2010 $'000
Options issued under ESOP	389	252
Options issued under GSOP	60	15
Shares issued under DESP	93	–
Total share-based compensation	**542**	**267**

33. Parent entity information

Set out below is the supplementary information about the parent entity.

	2011 $'000	2010 $'000
Profit or loss for the year	(11,229)	(8,172)
Total comprehensive income	**(11,229)**	**(8,172)**
Total current assets	15,055	23,310
Total assets	**16,867**	**24,895**
Total current liabilities	2,483	1,300
Total liabilities	**2,483**	**1,319**
Contributed equity	58,138	56,627
Reserves	1,146	847
Accumulated losses	(45,001)	(33,902)
Total equity	**14,283**	**23,572**

Contingent liabilities

The parent entity had no contingent liabilities other than the government grants received as disclosed in note 25.

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 3 except for the following:

Investments in subsidiaries are accounted for at cost, less any impairment.

34. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

the Group's operations in future financial years;

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

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

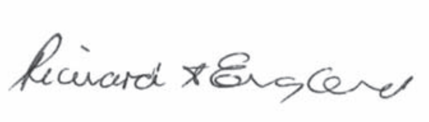
Directors' declaration

In the Directors' opinion:

1. the financial statements and notes set out on pages 46 to 82 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 2011 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.



Director
Sydney
26 August 2011

Independent auditor's report

UHY Haines Norton
Chartered Accountants

Independent Audit Report to the Members of Nanosonics Limited

Report on the Financial Report

We have audited the accompanying financial report of Nanosonics Limited, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.
In Note 3, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

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UHY Haines Norton
Chartered Accountants

Auditor's Opinion

In our opinion

(a) The financial report of Nanosonics Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards 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 35 to 43 for the director's report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s300A 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 2011, complies with s 300A of the Corporations Act 2001.

M. Nicholaeff

UHY Haines Norton

M. Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
Dated 26 August 2011

Shareholder information

The shareholder information set out below was applicable as at 17 August 2011.

A. Equity security holders

Twenty largest holders of quoted equity securities.

Ordinary shares	Number of quoted shares held	Percentage
MR BERNARD STANG	28,466,089	12.35%
MR MAURIE STANG	28,291,089	12.27%
MR STEVE KRITZLER	22,280,999	9.67%
NATIONAL NOMINEES LIMITED	11,150,332	4.84%
AUST EXECUTOR TRUSTEES NSW LTD	10,575,680	4.59%
COGENT NOMINEES PTY LIMITED	5,897,191	2.56%
J P MORGAN NOMINEES AUSTRALIA	4,825,771	2.09%
CITICORP NOMINEES PTY LIMITED	3,970,244	1.72%
HSBC CUSTODY NOMINEES	3,718,830	1.61%
ASIA UNION INVESTMENTS PTY LTD	3,000,000	1.30%
HSBC CUSTODY NOMINEES	1,644,721	0.71%
BENNELONG RESOURCES PTY LTD	1,500,000	0.65%
LINK TRADERS (AUST) PTY LTD	1,500,000	0.65%
LOWAN INVESTMENTS PTY LTD	1,500,000	0.65%
TOWNS CORPORATION PTY LTD	1387038	0.60%
MR SIMON MAGASANIK	1,305,488	0.57%
MOORE FAMILY NOMINEE PTY LTD	1,292,993	0.56%
BEVAN HOLDINGS PTY LTD	1,262,487	0.55%
DARLINGTON WEIR PTY LIMITED	1,219,090	0.53%
HOFBAUER NOMINEES PTY LTD	1,200,000	0.52%
Total top 20 holders	**135,988,042**	**59.00%**
Total all other holders	94,502,543	41.00%
Total shares on issue	**230,490,585**	**100%**

Unquoted equity securities	Number of options over ordinary shares	Number of holders
Options on issue		
General Share Options to take up unissued ordinary shares	353,500	9
Employee Share Options to take up unissued ordinary shares	3,032,700	21
Total options on issue	**3,386,200**	**29**

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	138	–
1,001 – 5,000	418	–
5,001 – 10,000	357	–
10,001 – 100,000	1,141	22
100,001 and over	212	7
Total Holders	**2,266**	**29**

There were 63 holders of less than a marketable parcel of 770 ordinary shares

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage of total ordinary shares
MR BERNARD STANG	28,466,089	12.35%
MR MAURIE STANG	28,291,089	12.27%
MR STEVE KRITZLER	22,280,999	9.67%

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)
ASUM	Australian Society for Ultrasound in Medicine
ASX	Australian Securities Exchange Limited
BBSW	Bank bill swap reference rate
CDC	Centre for Disease Control (USA)
Clostridium difficile	A bacterium, the most common cause of infectious diarrhoea in hospitals and long-term care homes
CMDCAS	Canadian Medical Devices Conformity Assessment System
Company	Nanosonics Limited
Date of this report	26 August 2011
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
ESOP	Employee Share Option Plan
FDA	Food and Drug Administration – USA
Financial Year	Year to 30 June
Fiscal Year	Year to 30 June
FY	Financial year, eg. FY2011 is the financial year ending 30 June 2011
Glutaraldehyde	An used to disinfect medical and dental equipment. It is toxic and can cause severe eye, nose, throat and lung irritation, along with headaches, drowsiness and dizziness. It is a main source of occupational asthma among health care providers (source: Canadian Centre for Occupational Health and Safety- February 2005) .
Golden Staph	Staphylococcus aureus, or S. aureus - a common bacterium that can cause a range of mild to severe infections, even death. Some strains are resistant to antibiotics.
Group	Nanosonics Limited and its wholly owned subsidiary companies
GSOP	General Share Option Plan
GST	Goods and Services Tax
HLD	High Level Disinfection - the minimum treatment recommended for reprocessing a device or item of equipment for use in a semi critical site, if it cannot be sterilised. It involves killing all microorganisms, with the exception of high numbers of bacterial spores.
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

Glossary (continued)

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 staphylococcus aureus, a bacterium resistant to broad-spectrum antibiotics
NanoNebulant®	The biocide used in Nanosonics' technological process
O&G	Obstetrics & Gynaecology
OEM	Original Equipment Manufacturer. In the context of Nanosonics, OEMs are typically the manufacturers of ultrasound consoles and probes.
PCT	Patent Co-operation Treaty
Q 1, 2, 3, or 4	3-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
R&D	Research and Development
Reporting period	Year to 30 June 2011
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
Sonex - HL®	The brand name of the biocide used in Nanosonics' technological process
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
WEEE	Waste, Electrical and Electronic equipment

Corporate directory

Nanosonics Limited ABN 11 095 076 896 Incorporated 14 November 2000

Directors
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Richard England
David Fisher
Ron Weinberger

Secretary and Chief Financial Officer
McGregor Grant

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Bankers
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National Australia Bank Limited
Level 36, 100 Miller Street
North Sydney NSW 2060 Australia

Deutsche Bank AG
Eppendorfer Landstrasse 70
Hamburg 20249 Germany

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

2011 Annual General Meeting
The 2011 AGM of Nanosonics Limited will be held:
At 11.00am on Friday 11th November 2011
At Level 3, Sydney Harbour Marriott Hotel, 30 Pitt street, Sydney NSW Australia

Website
www.nanosonics.com.au

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Nanosonics Limited

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