ANNUAL REPORT 2012

nanosonics

NANOSONICS LIMITED ABN 11 095 076 896

Contents

Company overview

Nanosonics (ASX: NAN) is an ASX-listed company that develops easy to use, environmentally friendly and quality-assured products for the infection control market.

Nanosonics is committed to preventing healthcare-acquired infections (HAIs), through its first product, Trophon® EPR, which is commercially available in North America, Europe, Australia, New Zealand and a number of other markets.

Trophon® EPR is the next generation in ultrasound probe disinfection. Nanosonics identified an unmet need in the market for fast, safe, eco-friendly probe disinfection. HAIs are infections acquired while receiving medical care, and are the fourth largest cause of fatalities in the United States each year. The Center for Disease Control and Prevention (CDC) estimates that as many as two million people suffer from HAIs annually in the U.S, resulting in more than 100,000 deaths.

Nanosonics, with its unique and patented platform technology, NanoNebulant™, is well positioned to take a leading role in the healthcare disinfection and sterilisation arena, and Nanosonics is investing in expanding this platform into new product categories.

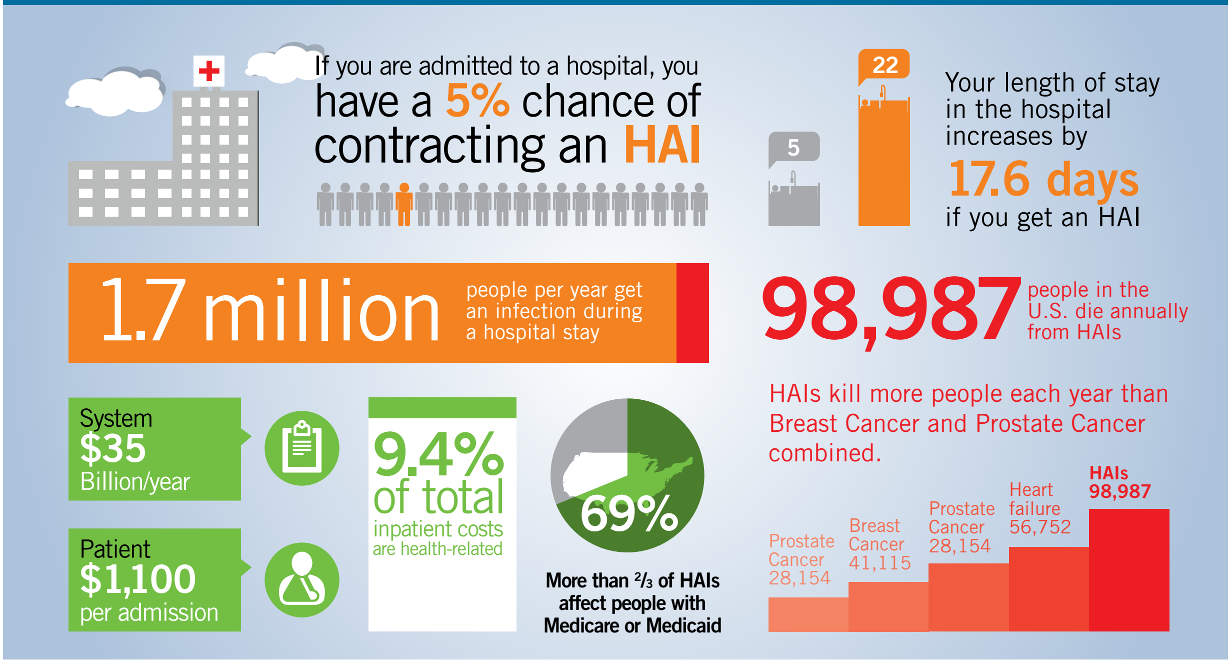
Nanosonics Ltd was founded in 2001 and headquartered in Sydney Australia with offices in the USA (Nanosonics Inc) and Europe (Nanosonics Europe GmbH).

You can read more about Nanosonics and its products at www.nanosonics.com.au.

Healthcare acquired infections: the unknown killer

"The need to increase quality of healthcare and moderate costs globally is prompting major change, particularly in the United States where changes in payment rules, as part of sweeping healthcare reform, is forcing hospitals to absorb the additional costs associated with healthcare-acquired infections (HAI) and take major steps to address this issue. The rate of HAIs has increased 36 percent in the last 20 years. This serious healthcare issue not only costs lives, it carries a heavy financial burden for healthcare providers, with US$35 to US$88 billion spent annually on these debilitating – and often fatal – infections."

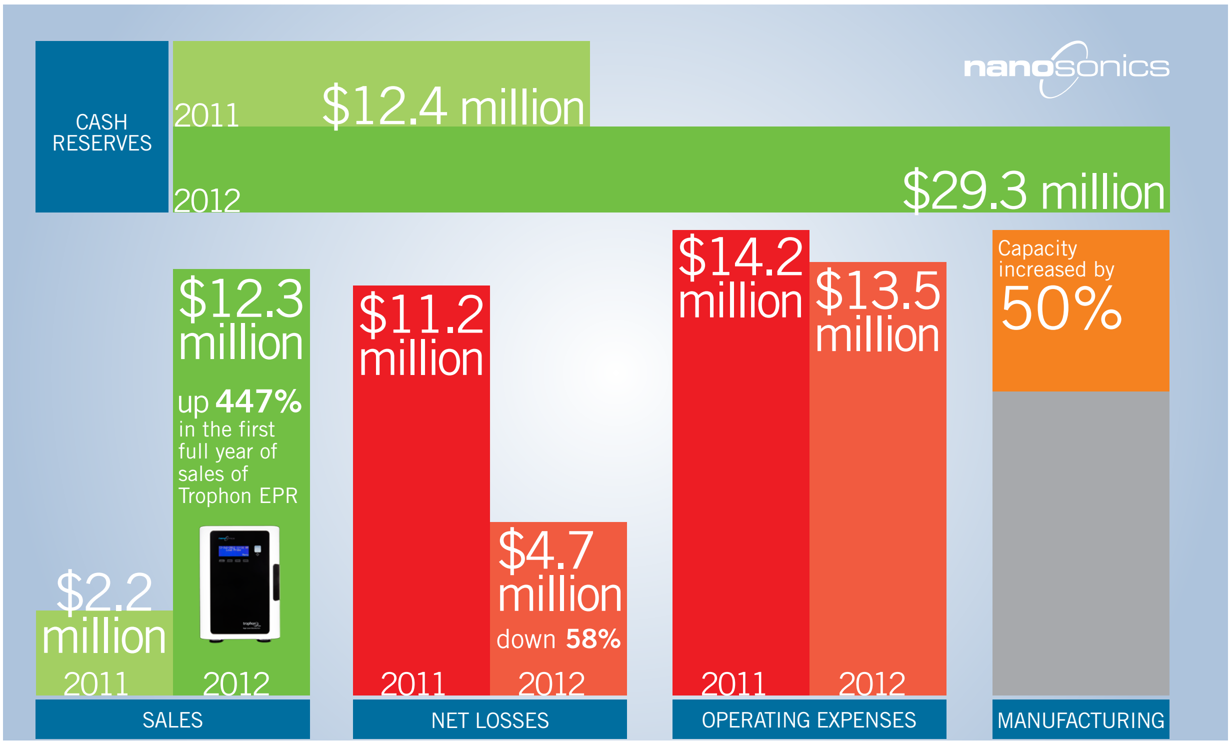
Dr Ron Weinberger Managing Director and CEO



The information in this infographic is taken from U.S data but illustrates the size of the issue and the potential value in delivering next generation solutions for this market. *Diagram courtesy of GE Healthcare.*

Financials at a glance

The year in numbers



	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Revenue					
Operating revenue	12,301	2,247	763	309	–
Less Cost of sales	(4,799)	(981)	(284)	(121)	–
Gross Profit	**7,502**	**1,266**	**479**	**188**	**–**
Other income					
Government grants received	150	–	161	150	1,112
Expenses					
Operating expenses (excluding depreciation and amortisation)	(12,634)	(13,229)	(8,827)	(9,867)	(9,961)
EBITDA	**(4,982)**	**(11,963)**	**(8,187)**	**(9,529)**	**(8,849)**
Depreciation and amortisation	(914)	(1,010)	(771)	(419)	(241)
EBIT	**(5,896)**	**(12,973)**	**(8,958)**	**(9,948)**	**(9,090)**
Interest income	586	1,052	785	1,194	1,943
Operating loss before tax	**(5,310)**	**(11,921)**	**(8,173)**	**(8,754)**	**(7,147)**
Net Income tax benefit	631	707	–	–	–
Operating loss after tax	**(4,679)**	**(11,214)**	**(8,173)**	**(8,754)**	**(7,147)**
Cash Assets					
Cash and cash equivalent assets on hand	**29,310**	**12,356**	**21,144**	**13,881**	**24,225**

Tracking our transformation: 2012 highlights

2012 MILESTONES

Launch of current generation Trophon® EPR into Australia and New Zealand

Online training facility **launched**

Nanosonics presents at major conferences of the **Radiological Society of North America** and **European Medica** where Trophon® EPR was very well received

Manufacturing capacity increased by **50%**

Q1

Q2

220v version of Trophon® EPR released to **international markets**

Units installed in Australia and New Zealand surpasses **600**

Annual service contracts for Trophon® EPR introduced, creating **new revenue stream**

Trophon® EPR printer launched. (Accompanying software to follow)

GE Healthcare

Trophon® EPR enters highly regulated Canadian market through GE partnership. Strong demand is driven by Health Canada and government requirements

Health Canada Santé Canada

Key management and sales staff hired in US to **maximise growth**

Trophon® EPR **only technology in market** to fully meet FDA guidance on high level disinfection of ultrasound probes

Q3

Q4

Hong Kong Hospital Authority grants **approval** for Trophon® EPR, and recommends its use in the **public healthcare system**

healthymagination fund invests **US$7.5M** in Nanosonics for development of Trophon® EPR

Trophon® EPR: at the innovation forefront of infection control

The Trophon® EPR product suite

- First fully-automated system for disinfection of ultrasound probes
- Only product on-market for high level disinfection of whole probe, including handle
- Only product on-market to fully meet US FDA best practice guidelines for high level disinfection of ultrasound probes
- Seven minutes to disinfect each probe: reduces number of probes required
- Lower cost to disinfect; less than 2ml of NanoNebulant™ required to disinfect probe
- Eco-friendly: Proprietary NanoNebulant™ breaks down to water and oxygen
- Extensive testing with all leading ultrasound intracavity probes; manufacturer-endorsed
- Closed system eliminates OH&S issues with handling any chemicals
- Inbuilt checking system confirms probe meets required standards

Nanosonics builds on the technology advantages of Trophon® EPR by offering an expanded product suite with a design informed by customer feedback. The suite aligns Trophon® EPR and Nanosonics with the needs of our customers, and allows them in turn to more effectively provide and monitor high-level disinfection procedures.

The suite currently includes the wall mount, trolley, chemical indicator, service contract, online training, and printer. The printer, together with auditing software that is soon to be launched – forming the Traceability Solutions Pack – will address the increasing need of healthcare providers to thoroughly document disinfection procedures for subsequent auditing.

The Trophon® EPR product suite expands Nanosonics' offering in the market and provides additional revenue streams from service contracts and consumables supply.

Chairman's letter

Dear Shareholders,

I am very pleased to present the 2012 Nanosonics Annual Report. The past year has been one of successive achievements by the Nanosonics team, underpinning our rapid transformation to an emerging global technology company.

Each of Nanosonics' achievements has provided growing momentum and significant value for our shareholders. There is wide recognition that Nanosonics' platform technology, low temperature disinfection and sterilisation (NanoNebulant™), is driving the rapid adoption of the Trophon® EPR in a large and lucrative market.

The extension of our relationship with GE Healthcare (GE) in terms of assisting Nanosonics to expand its global footprint and their equity investment is a strong indicator of the opportunities in front of Trophon® EPR and the broader R&D pipeline.

In June 2012 GE made a strategic $7.5m investment in Nanosonics via its **healthymagination** fund. The investment took the form of a four year convertible note at a conversion price of $0.75, a significant premium to the prevailing market price. The healthymagination fund invests in promising healthcare technologies that have validated potential to lower healthcare costs and improve patient outcomes. Trophon® EPR is one of the first non-GE branded products to be endorsed by this investment fund.

More recently the most senior executives of GE publicly expressed their support and confidence in us, saying that our Trophon® EPR product range represents *"truly extraordinary products"*.

Nanosonics has demonstrated its ability to deliver on multiple milestones including impressive revenue growth in our first year of full sales of Trophon® EPR, regulatory approval and entry into the highly attractive US and Canadian markets, strong customer uptake, and solidifying our cash position through revenue and equity.

Our R&D pipeline continues our tradition of innovation with a strong commercial focus and business case underlying our development work. The successful registration of Trophon® EPR in multiple international markets positions us ideally to leverage new commercial opportunities in healthcare and beyond.

The success of fast growing technology companies in their home country is well established and globally regarded as an important indicator of future success. Exceptional market penetration and acceptance of the Trophon® EPR in Australia and New Zealand, with in excess of 600 of units already installed, has already achieved a market share of around 30% for Nanosonics. As this translates into a number of global markets we strongly believe Nanosonics will join the ranks of other major Australian medical device companies.

Nanosonics is ideally positioned to replicate its Australian success in becoming the *"gold standard of care"* in North America. The benefits of Trophon® EPR, as evidenced by the healthymagination certification, is in stark contrast with existing toxic solutions currently in the market place for the disinfection of ultrasound probes.

Rapidly evolving guidelines, best practices and the regulatory environment for infection control continue to highly favour the market for the Trophon® EPR. Recently, the US Food and Drug Administration (FDA) commented on its clinical best practice guidelines for high level disinfection of ultrasound probes. As the first fully automated system that enables high level disinfection of the complete probe, Trophon® EPR is the only product in market that meets the guidelines for clinical best practice. It also has the highest levels of compatibility with the ultrasound probes of the world's leading ultrasound manufacturers.

The issue of healthcare-acquired infections (HAI) in the United States is driving major opportunities for Nanosonics, a position more acute as a result of the Obama Administration's healthcare reforms. The US Government has withdrawn reimbursement for patients that have acquired an infection as a consequence of any healthcare facility's negligence, or where that infection could have been prevented. This now adds a strong economic imperative to the quality of care case for Trophon® EPR and is driving both accreditation and reimbursement in the North American market.[1]

Key reimbursers in the US like the Centers for Medicare and Medicaid Services (CMS) are implementing policies that will reduce payments for cases associated with HAI. This includes direct financial disincentives for HAI that are likely to lead to hospital readmission. In addition, a program will be implemented that will reward hospitals for improving quality and efficiency of care based on measures across five health categories, of which HAI are one.[2]

We are not aware of any competitive technology that comes close to addressing the clean, green, protect positioning of our NanoNebulant™ technology which supports the rapid uptake of Trophon® EPR. Equally, we are committed to leveraging this proprietary platform into a number of additional revenue streams and opportunities, each representing significant global markets.

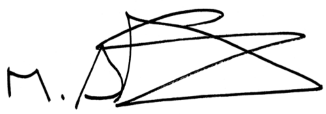
As Nanosonics continues to develop commercial momentum, the investment proposition becomes ever more compelling. Nanosonics is debt free, has rapidly growing revenues and is well positioned to establish leadership in a global market place potentially worth in excess of $1billion in annual sales.

We are very pleased to welcome a number of new institutional investors to our registry, including Allan Gray Investments (formerly Orbis Investment Management (Australia)) as a new substantial investor. This fund is well known for its support of emerging healthcare and technology companies and has an enviable investment performance record in recent years.

I thank my fellow Board members for their tireless efforts in supporting our success. I welcome our newest director, Mr Michael Kavanagh, currently Senior VP Global Marketing at Cochlear, who brings more than 20 years' experience in healthcare marketing including work for Pharmacia and Parke Davis. Michael's appointment brings a breadth of skills and experience to our Board in support of our senior management, helping drive the next phase of the Company's growth.

On behalf of our Board and shareholders we take the opportunity of acknowledging the efforts of the entire Nanosonics' team, led by Managing Director and CEO Dr Ron Weinberger. Not only is our team delivering on successful growth initiatives but they remain focused on generating a strong and exciting R&D pipeline to underpin our growth in years to come.

Nanosonics has a clear objective for the coming year; to deliver growing revenues and successes for our shareholders, and to maintain a culture of innovation and technological leadership whilst providing cleaner, greener and more effective solutions to our customers worldwide.



Maurie Stang

Non-Executive Chairman

Sydney

4 September 2012

1 Source: Savage B, MD et al, GE Healthcare IT Whitepaper *"The cost of healthcare associated infections"*, 2011

2 Source: Savage B, MD et al, GE Healthcare IT Whitepaper *"The cost of healthcare associated infections"*, 2011

Review of operations

The first full year of sales of Trophon® EPR in the major markets of the USA, Canada, Australia and New Zealand marks the transition of Nanosonics as a revenue-generating commercial entity. The first year of significant sales heralds Nanosonics' entry into a select, high-profile group of listed Australian healthcare companies which have successfully taken a technology from development through to commercial launch.

Our goal with Trophon® EPR is to establish a market-leading position in ultrasound probe disinfection, with a command of the entire value chain from manufacturing to customer training.

We set clear corporate objectives for 2012:

- Expand the US presence of Trophon® EPR;
- The creation of supplementary revenue streams and consumable products; and
- Commence a staged global roll-out supported by incremental increases in manufacturing capability.

We have become increasingly customer focused and have aligned our activities with the needs of our customers, both existing and potential. We are now actively targeting infection control specialists and providing them with the opportunity to trial Trophon® EPR. This strategy has been highly successful. The reception has been overwhelmingly positive with around 90% of trial sites subsequently making orders, helping us to accelerate our market penetration and improve the Nanosonics' profile.

The trials allow us to gather customer insights and feedback. Such feedback has informed our Trophon® EPR sales program, and product development of the wall mount, trolley, printer and software suite to accompany the core Trophon® EPR product.

US launch of Trophon® EPR

Since launching into the US market in June 2011 through an exclusive relationship with GE Healthcare, Nanosonics has worked closely with GE to build on this launch activity. The market opportunity in North America for Trophon® EPR and associated consumables is the largest in the world, with over 200 million ultrasound procedures performed annually.

"I commend you on the latest generation of the Trophon which I have been using in my office for some months now. The device has clear advantages over the existing technology and offers significant piece of mind in relation to the high level disinfection of vaginal transducers. The current model is fast, efficient, economical and easy to use.
My patients are also happy to see the probes have been disinfected to a high level.

"The device is a clear revolution in the field and I am sure you will have every success in other jurisdictions around the globe for whom infection is a significant priority."

Michael JW Cooper
Clinical Associate Professor, University of Sydney
Gynaecologist and Endoscopic Surgeon
Head of Gynaecology, Royal Prince Alfred Hospital
Sydney IVF
(July 29, 2011)

GE has a leading market position as the equipment supplier of choice for many of the customers that Nanosonics is targeting.

To support our launch into the US market, we have appointed key US staff to drive business development and sales. We are also investing in sales staff in other key markets, including the appointment of a Regional Sales Manager in the UK.

Consumable products support recurring revenue model

The addition of service contracts and the online training module provide recurring annual revenues for Nanosonics and complement the Trophon® EPR unit sales. Uptake has been encouragingly high, with New Zealand customers in particular readily adopting the service contract. A service contract provides for an annual review and check of the Trophon® EPR and replacement of parts. We are planning to roll-out the service contract offering in Europe.

Review of operations (continued)

Automated traceability of disinfection results is a priority for our customers as further pressure is being placed on hospitals and clinics by certification authorities. In response, Nanosonics has developed a "Traceability Solutions Pack" for customers, which includes a printer that reports the cycle information stored by the Trophon® EPR as well as software (soon to be launched) that can take the same information and download it onto clinic computer systems in an easy to read format.

The software suite and printer will allow patient records to be easily updated with details of the ultrasound probe and provide the healthcare centre with details of all disinfection cycles. These additions round out the complementary product suite for Trophon® EPR which now includes wall mounts, trolleys and service contracts.

Responding to customer requests in the North American market, we are exploring financing options to support and incentivize uptake of the Trophon® EPR. This also helps offset the time-dependent nature of capital expenditure purchase cycles that are the mainstay of large organizations.

Global roll-out of Trophon® EPR

Nanosonics is focused on penetrating new markets and driving revenue growth through a staged global roll-out.

Australia and New Zealand	• More than 600 units sold and installed in Australia and New Zealand over two years • Steadily building the installed base that drives consumable revenue • Roll-out of service contracts and new products to drive additional revenue growth • Impressive launch in New Zealand with high percentage of immediate conversion after trial • 80% take up rate of service contracts in New Zealand • Strategy now focused on large private healthcare providers and regional public health organizations
US and Canada	• Infection control key focus of US government healthcare reforms • Exclusive distribution agreement with GE Healthcare • Nanosonics investing in resources to support GE Healthcare and drive US sales
Europe	• Focus on large, stronger economies • Selling through multiple distribution partners, including GE • Opportunity for growth through optimization of distribution methodology • Investment in dedicated resources to facilitate growth
Asia	• Hong Kong Hospital Authority approval granted • Parallel approach to advancing approval while rolling out in approved market. • Singapore, Japan, South Korea and China priority targets for approval and roll-out

Manufacturing

During the year we expanded our premises at Nanosonics' headquarters in Sydney, Australia, and our production capacity was increased by 50 percent. Our processes and yields are now at very high levels, to support ongoing volume increases. We have also streamlined the production process, which has improved efficiencies.

We are well-positioned to accommodate demand for both the consumables and Trophon® EPR units, in volumes sufficient to supply a growing global demand.

The changing environment of infection control strengthens the profile of Trophon® EPR

The need to increase quality of healthcare and moderate costs globally is prompting major change, particularly in the United States where changes in payment rules, as part of sweeping healthcare reform, is forcing hospitals to absorb the additional costs associated with healthcare-acquired infections (HAI).

As a result most hospitals and major clinics have infection control teams charged with developing initiatives and making purchase decisions to increase patient safety and reduce infection.

The rate of HAIs has increased 36 percent in the last 20 years. This serious healthcare issue not only costs lives, it carries a heavy financial burden for healthcare providers, with US$35 to US$88 billion spent annually on these debilitating – and often fatal – infections.

Recently the Medicines and Healthcare products Regulatory Agency of the United Kingdom issued a Medical Device Alert following the death of a patient resulting from a contaminated ultrasound probe. The alert strongly advised that infection control measures for ultra sound probes should be reviewed and updated to ensure proper decontamination.

Existing disinfection methods are coming under increased scrutiny elsewhere, with bodies such as the Californian Environmental Protection Agency ruling that substances such as those commonly used currently to disinfect ultrasound probes cannot be introduced into wastewater channels without additional processing. The safety issues associated with these chemicals often require the use of protective equipment and risk protocols. This bodes well with the associated high safety profile of the Trophon® EPR.

The underlying environmentally friendly basis of the NanoNebulant™ technology, which is behind Trophon® EPR's disinfecting mist, is a key differentiator and we anticipate it becoming an increasingly important selling point over the medium-term as the primary advantages of Trophon® EPR become more accepted as standard requirements.

Key opinion leader engagement

Nanosonics has built a strong and growing network of key opinion leaders supporting the need for Trophon® EPR.

The peak body for infection preventionists is the Association for Professionals in Infection Control and Epidemiology (APIC) – and our attendance at its annual conference in San Antonio, Texas, was a watershed moment for the Company. The level of enquiry and interest surpassed our expectations and it was clear to see that Trophon® EPR stood out as a truly innovative, customer-focused product that resonated deeply with this audience. In particular, the unsolicited endorsement we received from Dr William Rutala, a key opinion leader and key note speaker at the conference, was significant.

Dr Rutala led the major session on Disinfection and Sterilisation, and in a separate session referred to the Trophon® EPR as a welcomed development in the high-level disinfection of ultrasound probes. Dr Rutala and other experts in the field are pushing for high-level disinfection of the entire ultrasound probe, which cannot be done with the existing toxic chemical methods.

People and culture

As Nanosonics continues to grow it attracts some of the brightest talent from the medical device and technology sector. In recognition of the integral role that our people play in our ultimate success we continue to invest in and refine our strategy for employee engagement and retention of high performers.

Major initiatives this year include the development of a new remuneration strategy encompassing benchmarking of salaries, and a new bonus scheme encompassing short and long-term incentives, ensuring individual performance is aligned to business goals and ultimately to shareholder interests.

We have increased investment in training for both internal and external staff (e.g. distributors), directly supporting our sales strategy and encouraging skills development.

Outlook

Nanosonics is delivering significant growth through expansion into new markets. The US launch is off to a strong start and, while initial sales growth is not easily predictable, we are confident of year-on-year growth ahead in our major markets. To support this we will continue to strengthen our engagement with customers, key opinion leaders and our partners to ensure our products and service offering are kept to the highest standards.

In the year ahead we look forward to expanding our regulatory approval in the Asian region, and growing our sales in existing markets supported by a strengthened local management team in those markets. We will also continue to provide visibility to the next opportunities to arise from the NanoNebulant™ platform, which we are confident of leveraging into a variety of revenue streams in the future.

R. Weinberger

Dr Ron Weinberger
Managing Director and CEO
Sydney

4 September 2012

"At Sydney IVF we have a number of Trophon EPR devices installed for high level disinfection of ultrasound transducers at various sites around Australia. Our clinics are typically very busy, so a time-effective, cost-efficient and easy to use disinfection device is important for our business.

"At each of our sites we have noticed a great improvement in workflow, particularly due to the short cycle time of seven minutes. We transitioned from using a Cidex soak, which was typically ten minutes in duration and had some significant OH&S implications for our staff due to the fumes.

"The Trophon EPR has answered these concerns, as there are no hazardous fumes our staff are being exposed to. We were also pleased with the capability of Trophon EPRto disinfect the entire transducer (shaft and handle) reducing the risk of potential cross contamination.

"Overall, each of the Sydney IVF sites are very happy with their Trophon EPR and would recommend it to other sonography businesses for improvements in workflow, OH&S and environmental benefits."

Lee Ho
Nursing Unit Manager of Sydney IVF Day Surgery
4 August 2011

Intellectual property

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

Our intellectual property portfolio continues to underpin our products and technologies, with existing patents progressing through the applicable patent offices. An acceleration of research and development into new products and technologies is underway and this will constitute the research and development team's focus in the coming year. It is anticipated that multiple new inventions will undergo protection within the next 12 months.

Nanosonics current patent portfolio consists of 13 patent families. Each patent family provides Nanosonics with a fundamental competitive advantage to protect the Company's inventions.

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	Granted or 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	Granted or awaiting/ undergoing national examination[a]	4 August 2005
Membrane Concentrator	An aerosol and vapour biocide concentrator incorporating a semi-permeable membrane	Granted or awaiting/ undergoing national examination[a]	4 August 2005
Membrane Vapour Concentrator	A vapour biocide concentrator incorporating a semi-permeable membrane	Granted or awaiting/ undergoing national examination[a]	2 February 2007
Sub-cycle Based Disinfection System	A method for fast disinfection and rapid removal of residual sterilant	Awaiting/undergoing national examination	30 June 2008
Aerosol Sensor	A method and apparatus for the measurement of aerosol for the purposes of certifying sterilisation	Awaiting/undergoing national examination	30 June 2008
Safe Chemical Delivery System	A method and apparatus for the safe handling of chemical consumables	Awaiting/undergoing national examination	30 June 2008
Nebuliser Manifold	A manifold for improving aerosol properties and flow in a chamber	Awaiting/undergoing national examination	15 August 2008
Disinfection Product and Process	Self-neutralising aerosols	Awaiting/undergoing national examination	22 May 2009
Liquid Level Sensor	Sensor for detecting liquid peroxy chemicals	PCT awaiting examination	24 June 2011
Design family			
Bottle	Non-refillable bottle for safe delivery of consumables	Registered	1 June 2009

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

Information on the directors, company secretary and senior management

Maurie Stang

Non-Executive Chairman

Mr Stang has been Non-Executive Chairman since March 2007 and a member of the Board 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 Ltd (ASX: AEI) since 2002.

Related parties

Details of transactions in the financial year ended 30 June 2012 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 statements.

Ron Weinberger BSc (Hons), PhD

Managing Director and Chief Executive Officer

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

Responsibilities

Dr Weinberger has executive responsibility for the overall leadership of the business and the implementation of its strategies.

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. Dr Weinberger has extensive experience across all aspects of the business having driven key strategies during its growth phase.

Other current and former directorships in last 3 years

No ASX listed companies.

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 US 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 Ltd (ASX: AEI) since May 2011.

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

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; and director of Choiseul Investments Limited from 2004 to 2010.

Michael Kavanagh BSc, MBA (Advanced)

Non-Executive Director

Mr Kavanagh joined the Board as a non-executive director on 30 July 2012.

Skills, experience and expertise

Mr Kavanagh is a highly experienced executive with international experience, having worked for more than 20 years in the area of healthcare marketing. He is currently Senior Vice President of Global Marketing for the major medical device company Cochlear Limited, a position he's held for more than 9 years.

Other current and former directorships in last 3 years

Mr Kavanagh has no other current and former directorships in the last 3 years.

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 (Hons)

Head of Manufacturing

Mr Putt joined Nanosonics full time in April 2011. 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.

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.

McGregor Grant

Gerard Putt

Lisa Springer

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

Ronald J Bacskai BSME, MBA (Hons)

President and CEO – Nanosonics Inc.

Mr Bacskai joined Nanosonics in 2010 and is responsible for leading 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 commercialization background. Mr Bacskai has significant experience as president, CEO and board member of several public and private organizations as well as serving on the advisory board of a specialty environmental firm.

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 & development of the Trophon® EPR & associated core intellectual property.

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.

Robert 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 over 40 years' experience in financial and corporate roles, including over 20 years in company secretarial roles for ASX-listed companies and over 15 years as a director of ASX-listed companies. He is a director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies.

Ronald J Bacskai

Michael Potas

Vincent Wang

Jianhe Chen MD, MSc

Quality Assurance Manager

Dr Chen has been with the Company since July 2009. Dr Chen has over 10 years' experience in quality assurance and regulatory affairs in globalised medical device companies, in addition to broad skills and knowledge obtained in 6 years of clinical practice and 12 years in 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 12 years.

Kirste (Jarvis) Courtney BA

Human Resources Manager

Mrs Courtney joined Nanosonics in 2008 and has over 14 years of human resources experience having worked in a variety of industry sectors including chartered accounting, media, logistics and banking.

Ruth Cremin MSc

Regulatory Affairs Manager

Ms Cremin joined Nanosonics in July 2011 with extensive regulatory affairs experience. She worked at Cochlear as a Senior Regulatory Affairs Specialist for the Asia Pacific region.

Prior to that, Ms Cremin worked in both Regulatory and Quality roles at Pfizer Australia and Bio-Medical Research Ltd in Galway, Ireland.

Jianhe Chen

Kirste Courtney

Ruth Cremin

Directors' report

Your directors submit their report together with the Consolidated Financial Report of the Group, being Nanosonic Limited and its subsidiaries, for the year ended 30 June 2012.

Principal activities

During the year the principal activities of the Group consisted of:

- research, development and commercialisation of infection control and decontamination products and related technologies; and
- manufacturing and distribution of the Trophon® EPR ultrasound probe disinfector and 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 $12,301,000 (2011: $2,247,000) and other income amounted to $736,000 (2011: 1,052,000). The net operating loss after income tax amounted to $4,679,000 (2011: $11,214,000). Cash and cash equivalents at 30 June 2012 amounted to $29,310,000 (2011: $12,356,000) which include the net proceeds from the issuance of shares of $15,394,000 (2011:$1,413,000) and the net proceeds from the issuance of convertible notes of $7,400,000 (2011: Nil). Other information on the operations of the Group and its business strategies and prospects is discussed in the Review of operations on pages 9 to 12 of this report.

Significant changes in the state of affairs

During the year, the Company increased its funding as follows:

- the Company issued 29,245,283 shares through a placement to sophisticated and professional investors at a price of $0.53 per share completed on 4 May 2012 to raise $15,500,000 less the issue expenses of $188,000; and
- the Company issued convertible notes which raised $7,400,000 net of issue expenses of $100,000.

With the increased funding, the Company is strongly positioned to drive the commercialisation of the Trophon® EPR in each of the key markets globally and continue developing its valuable new product pipeline.

There were no other 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 2012. No dividends were proposed, declared or paid during the financial year (2011: Nil).

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

On 4 May 2012, the Company announced the Share Purchase Plan offering up to 9,433,962 shares at the issue price of $0.53 per share. The Share Purchase Plan closed on 16 July 2012 from which the Company issued 718,496 shares and raised $381,000 less share issue cost of $39,000.

No other matter or circumstance has arisen since 30 June 2012 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

Comments on expected results of the operations of the Group are included in the Review of operations on pages 9 to 12. 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:

Board of Directors Nanosonics Limited

Maurie Stang, Non-Executive Chairman
David Fisher, Non-Executive Director
Richard England, Non-Executive Director
Michael Kavanagh, Non-Executive Director,
appointed 30 July 2012
Ron Weinberger, Managing Director,
appointed Managing Director and CEO
19 December 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
Maurie Stang

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 14 to 19 of this report.

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

(a) Directors

In accordance with the Constitution:

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

(b) Company secretaries

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

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

Meetings of directors

The number of directors’ meetings, including meetings of the committees, held during the year ended 30 June 2012, and numbers of meetings attended by each of the directors were as follows:

			Meetings of committees					
	Full meetings of directors		Audit		Governance and Nomination		Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Maurie Stang	14	14	3	3	1	1	5	5
Richard England	14	14	3	3	1	1	5	5
David Fisher	14	14	3	3	1	1	5	3
Ron Weinberger	14	14						

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 2012 (2011: 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 2012, the Company issued a total of 29,492,333 (2011: 4,737,553) new ordinary shares in Nanosonics Limited as detailed below. To the date of this report, the Company issued a total of 30,210,529 new ordinary shares as detailed below. No amount was unpaid on any of the shares so issued.

Shares issued	Number of shares issued
Share placement	29,245,283
Share options exercised under Share Option Plans	247,050
Shares issued during the year	**29,492,333**
Share purchase plan	718,196
Total new shares issued to the date of this report	**30,210,529**

As at 30 June 2012 there were 259,982,918 (2011: 230,490,585) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 260,701,114 shares 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, 852,442 (2011: 3,160,000) unquoted options over unissued ordinary shares in Nanosonics Limited. Further information on the grants is provided below, in the remuneration report on page 33 and in the Share-based compensation note to the financial statements.

Share options granted	Number of options granted
Employee Share Option Plan (ESOP)	657,442
General Share Option Plan (GSOP)	195,000
Total share options granted during the year and to the date of this report	**852,442**

Shares under option

At the date of this report, there were 3,744,103 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2012, there were 3,758,269 (2011: 3,386,200) unissued ordinary shares of Nanosonics Limited under option. 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)	3,316,553
General Share Option Plan (GSOP)	427,550
Total shares under option to the date of this report	**3,744,103**

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	28,435,758	-
Richard England	78,301	50,000
David Fisher	812,705	-
Michael Kavanagh	-	-
Ron Weinberger	808,013	251,659

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums to insure the directors and secretary and key management personnel of the Company and its controlled entities.

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

The directors have not included in this report the amount of the premium paid in respect of the insurance policy, as such disclosure is prohibited under the terms of the contract.

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*.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) and where noted ($'000) under the option available to the Company under ASIC CO 98/100. The Company is an entity to which the class order applies.

Non-audit services

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

The Board of directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, 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 43 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 9 to 13), the Information on the directors, company secretaries and senior management (on pages 14 to 19) and the Remuneration report (on pages 33 to 41) is made and signed in accordance with a resolution of directors on 4 September 2012.

Richard England
Director
Sydney
4 September 2012

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), 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, advisors, 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 (2nd Edition) 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 Managing Director and CEO 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 secretaries 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.

Structure of the Board

The current Board consists of four non-executive directors and one managing 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 11 November 2011
- Dr David Fisher is an independent non-executive director: appointed 30 July 2001, re-elected 11 November 2011
- Mr Richard England is an independent non-executive director: appointed 5 February 2010, re-elected 3 November 2010
- Mr Michael Kavanagh is an independent non-executive director: appointed 30 July 2012
- Dr Ron Weinberger is the Chief Executive Officer (CEO): appointed as an executive director 2 July 2008, re-elected 3 November 2010, appointed Managing Director and CEO 19 December 2011.

Details of each director, including their qualifications and experience, are set out in the Information on the directors, company secretaries and senior management on pages 14 to 16 of 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 as: 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 interim 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 Ltd where Mr Stang is the Non-Executive Chairman.
- Mr England is considered to be an independent director.
- Mr Kavanagh is considered to be an independent director.

The Board is considering opportunities to appoint additional suitably qualified and experienced independent directors. At the time when the Company has appointed other independent directors, the Board will also consider its opportunities to appoint an independent chairman.

Governance and Nomination Committee

The 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); and
- 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 & ethics

All directors, officers, employees, advisors, 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 & 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, advisors, 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 Managing Director and CEO 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 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 5 years and cannot return for a further 2 years. Key audit staff are required to rotate every 7 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, advisors, 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
- 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 directors
- Information Disclosure Policy
- Profiles of directors and senior management
- Risk Management Policy
- Notices of Annual General Meetings
- Privacy Policy
- Diversity 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 Managing Director and CEO, to design, implement and review an effective risk management and internal control system. Executive management is required to report via the Managing Director and CEO to the Board whether the Group's material business risks are being managed effectively.

In the period under review in the 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.

Diversity

Nanosonics believes that the pursuit of diversity in the workplace increases its ability to attract, retain and develop the best talent available, creates an engaged workforce, delivers the highest quality services to its customers, enhances individual work-life balance, encourages personal achievement, improves co-operation and assists in the optimisation of organisational performance. Diversity in the workplace mirrors the diversity of the broader community, encompassing age, gender, ethnicity, cultural and other personal factors. The Company respects the diversity of all employees, consultants and contractors, and cultivates an environment of fairness, respect and equal opportunity.

Set out below are the diversity objectives established by the Board.

- Hiring: The Board will ensure that appropriate selection criteria, based on diverse skills, experience and perspectives, are used when recruiting new staff and directors.
- Job specifications, advertisements, application forms and contracts will not contain any direct or inferred discrimination.
- Training: All internal and external training opportunities will be based on merit, and Company and individual needs. The Board will consider senior management training and executive mentoring programmes to develop skills and experience to prepare employees for senior management and Board positions.
- Career Advancement: All decisions associated with career advancement, including promotions, transfers, and other assignments, will meet the Company's needs, and be determined on skill and merit.
- Work Environment: The Company will ensure that all officers, employees, consultants and contractors have access to a work environment that is free from harassment and unwanted conduct in relation to personal circumstances or characteristics. Directors, managers and supervisors will ensure that complainants or reports of sexual, racial or other harassment are treated seriously, confidentially and sympathetically by the Company.

As at 30 June 2012, woman represented 34% (2011: 32%) of the Group's workforce, 45% in key executive positions (2011: 36%) and 0% at Board level (2011: 0%)

Fair and responsible remuneration

The Company's remuneration philosophy and policies are set out in the Remuneration Report in the 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 of the Remuneration Report in the 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; and
- 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, options or shares.

The remuneration of the Managing Director and CEO 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. 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, superannuation, and non-monetary benefits
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 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.

Short term incentive 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 salary, subject to the achievement of defined key performance indicators and overall company performance objectives.

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.

The Remuneration Committee is in the process of reviewing its Short Term Incentive and Long Term Incentive Schemes. 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 Managing Director and CEO, CFO and KMP 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 KMP may be terminated by either party with one month's notice, except in the case of the Managing Director and CEO and Head of Manufacturing, where the Company is required to give three months' notice of termination and in the case of the CFO, where the Company is required to give four months' notice of termination.

3. Share-based compensation

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

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

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

The establishment of the Nanosonics Employee Share Option Plan (ESOP) was approved by the directors on 2 April 2007. The ESOP is designed to provide long-term incentives to deliver long-term shareholder returns. All employees and executive directors are eligible to participate in the ESOP.

Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue.

Under the ESOP, participants are granted options for no consideration which vest in varying tranches from the date of issue. The options expire typically within a year after the vesting date of the last tranche. 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 or within a period as approved by the Board. 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.

The Company granted 657,442 ESOP options during the year (2011: 3,060,000 options).

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 3 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

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

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.

No shares were issued under the DESP during the financial year (2011: 102,403).

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 2012, except for Michael Kavanagh, who was appointed non-executive director on 30 July 2012.

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

Non-executive directors	
Maurie Stang	**2012**
	2011
Richard England	**2012**
	2011
David Fisher	**2012**
	2011
Executive directors	
Ron Weinberger	**2012**
	2011
David Radford[1]	**2012**
	2011
Key management personnel	
McGregor Grant[2]	**2012**
	2011
Gerard Putt[3]	**2012**
	2011
Jianhe Chen	**2012**
	2011
Michael Potas	**2012**
	2011
Kirste (Jarvis) Courtney[4]	**2012**
	2011
Chris Grundy[5]	**2012**
	2011
Arjang Safa[6]	**2012**
	2011
Total	**2012**
Total	2011

Short-term benefits				Long-term benefits		Share-based payments				
Salary and fees $	Cash bonus $	Non-monetary benefits $	Other $	Superannuation $	Long service leave $	Options and rights[a] $	Shares $	Termination payments $	Total $	Performance related %
90,000	**–**	**–**	**–**	**16,200**	**–**	**–**	**–**	**–**	**106,200**	–
90,003	–	–	–	–	–	–	–	–	90,003	–
60,000	**–**	**–**	**–**	**10,800**	**–**	**2,993**	**–**	**–**	**73,793**	–
60,000	–	–	–	–	–	6,757	–	–	66,757	–
58,915	**–**	**–**	**–**	**5,510**	**–**	**–**	**–**	**–**	**64,425**	–
61,270	–	–	–	5,306	–	–	–	–	66,576	–
303,065	**29,550**	**29,034**	**–**	**16,441**	**16,286**	**31,161**	**–**	**–**	**425,537**	10%
207,186	4,837	–	–	15,395	6,276	36,357	10,628	–	280,679	6%
–	**–**	**–**	**–**	**-**	**–**	**–**	**–**	**–**	**–**	–
267,913	7,384	–	–	17,095	–	71,219	–	12,645	376,256	–
251,577	**–**	**–**	**356**	**16,662**	**–**	**237,113**	**–**	**–**	**505,708**	–
51,247	–	–	–	3,547	–	30,397	–	–	85,191	–
191,500	**–**	**–**	**231**	**16,450**	**–**	**94,782**	**–**	**–**	**302,963**	–
46,711	–	–	–	2,767	–	12,138	–	–	61,616	–
121,803	**15,493**	**–**	**40**	**25,136**	**–**	**26,226**	**–**	**–**	**188,698**	12%
140,613	3,420	–	–	12,197	–	36,357	–	–	192,587	2%
152,385	**16,296**	**–**	**–**	**14,958**	**11,723**	**9,274**	**–**	**–**	**204,636**	12%
123,176	3,836	–	–	11,086	–	4,678	4,999	–	147,775	9%
141,623	**17,118**	**–**	**–**	**14,929**	**–**	**19,273**	**–**	**–**	**192,943**	19%
136,723	1,509	–	–	12,264	–	23,321	–	–	173,817	14%
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
86,664	4,894			3,867	–	52,338	–	33,465	181,228	32%
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
148,415	4,837	–	–	10,263	–	4,156	–	15,224	182,895	5%
1,370,868	**78,457**	**29,034**	**627**	**137,086**	**28,009**	**420,822**	**–**	**–**	**2,064,903**	
1,419,921	30,717	–	–	93,787	6,276	277,718	15,627	61,334	1,905,380	

[1] Mr Radford resigned as an executive director on 16 May 2011.

[2] Mr Grant joined the Company and was appointed Chief Financial Officer and Company Secretary on 28 April 2011. As part of his employment contract, he was granted 1,000,000 options which vest in 4 tranches subject to service conditions.

[3] Mr Putt was appointed Head of Manufacturing on 27 April 2011. As part of his employment contract, he was granted, 400,000 options which vest in 4 tranches subject to service conditions.

[4] Ms Courtney is included as one of the five named Company or Group executives who received the highest remuneration in the current financial year in accordance with section 300a of the *Corporations Act 2001*.

[5] Mr Grundy resigned as Chief Financial Officer and Company Secretary on 1 October 2010.

[6] Mr Safa resigned as General Manager Manufacturing and Supply Chain on 2 March 2011

[a] The value disclosed above is the proportion of the fair value of the options and shares allocated to the financial year. The ability to exercise the options and shares is subject to service conditions and based on achievement of personal goals and specified performance criteria. The estimated value of options for the current financial year is calculated at the date of the grant using the Black-Scholes model. Further details of the options granted during the financial year are set out on pages 38 to 41 and the Share-based compensation note to the financial statements.

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

The following factors and assumptions were used in determining the fair value on grant date of options granted to directors, key management personnel and five highest remunerated Company executives which were unexpired on 30 June 2012:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Value of option
ESOP	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
ESOP	Jan-12	1-Oct-12	$0.58	$0.00	54.58%	3.40%	$0.58
ESOP	Apr-12	1-Apr-13	$0.51	$0.00	50.45%	3.28%	$0.51

7. Share-based compensation granted as remuneration

Shares granted

No shares were granted during the year 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.

Following are the details of the shares granted in prior year:

	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-11	5,506	-	-	-	-

Options granted

The vesting profiles as at 30 June 2012 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 lapsed/ forfeited	Number vesting in future financial years[1]		
							2013	2014	2015
Directors									
Richard England	GSOP@$0.55	50,000	Jan-10	33,000	–	–	17,000	–	–
Ron Weinberger	ESOP@$0.00*	30,970	Apr-12	–	–	–	30,970	–	–
	ESOP@$0.00**	20,689	Jan-12	–	–	–	20,689	–	–
	ESOP@$0.556	200,000	Jul-10	66,000	–	–	66,000	68,000	–
	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	–	–	–	–
David Radford[2]	ESOP@$0.556	200,000	Aug-10	–	–	200,000	–	–	–
	ESOP@$0.535	500,000	Aug-10	–	–	335,000	165,000	–	–
	ESOP@$0.30	500,000	Jun-09	295,000	295,000	170000	35,000	–	–
	ESOP@$0.30	500,000	Nov-08	500,000	500,000	–	–	–	–
Key management personnel									
McGregor Grant	ESOP@$0.85	1,000,000	May-11	166,667	–	–	333,334	333,333	166,666

Remuneration report (continued)

	Option Plan, exercise price	Number granted	Date granted	Number vested	Number exercised	Number lapsed/ forfeited	Number vesting in future financial years[1] 2013	2014	2015
Gerard Putt	ESOP@$0.85	400,000	May-11	66,667	–	–	133,334	133,333	66,666
Jianhe Chen	ESOP@$0.00*	12,409	Apr-12	–	–	–	12,409	–	–
	ESOP@$0.00**	14,575	Jan-12	–	–	–	14,575	–	–
	ESOP@$0.556	200,000	Jul-10	66,000	–	–	66,000	68,000	–
Michael Potas	ESOP@$0.00*	15,544	Apr-12	–	–	–	15,544	–	–
	ESOP@$0.00**	12,905	Jan-12	–	–	–	12,905	–	–
	ESOP@$0.345	75,000	Jun-09	75,000	24,750	-	–	-	-
	ESOP@$0.75	175,000	Apr-07	175,000	–	175,000	-	-	-
Kirste Jarvis	ESOP@$0.00*	15,484	Apr-12	–	–	–	15,484	–	–
	ESOP@$0.00**	14,379	Jan-12	–	–	–	14,379	–	–
	ESOP@$0.556	100,000	Aug-10	33,000	–	–	34,000	33,000	–
	ESOP@$0.345	75,000	Jun-09	75,000	–	–	–	-	–
	ESOP@$0.30	45,000	Nov-08	45,000	–	–	–	-	–
Chris Grundy[3]	GSOP@$0.785	100,000	Oct-10	100,000	–	–	–	–	–
	ESOP@$0.345	100,000	Jun-09	100,000	100,000	-	–	–	–
	ESOP@$0.75	250,000	Jul-07	250,000	250,000	-	–	–	–
Arjang Safa[4]	ESOP@$0.556	200,000	Aug-10	–	–	200,000	–	–	–
	ESOP@$0.345	350,000	Jun-09	115,500	115,500	234,500	–	–	–
	ESOP@$0.75	80,000	Nov-07	80,000	80,000	–	–	–	–

[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 with the exception of the zero-priced options issued under the option plans marked * and **.
*Zero-priced options issued under this plan will vest on 1 March 2013 and expire on 1 April 2013.
**Zero-priced options issued under this plan will vest on 1 September 2012 and expire on 1 October 2012.
[2]Mr Radford resigned as an executive director on 16 May 2011.
[3]Mr Grundy resigned as Chief Financial Officer and Company Secretary on 1 October 2010.
[4]Mr Safa resigned as General Manager Manufacturing and Supply Chain on 2 March 2011.

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	2012	–	–
	2011	4,999	–

[1] The rules of the DESP and ESOP provided that 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				
Ron Weinberger	2012	**51,659**	–	–
	2011	62,000	255,750	–
David Radford[2]	2012	–	–	–
	2011	62,000	118,500	220,200
Key management personnel				
Jianhe Chen	2012	**14,782**	–	–
	2011	62,000	–	–
McGregor Grant	2012	–	–	–
	2011	500,000	–	–
Gerard Putt	2012	–	–	–
	2011	200,000	–	–
Michael Potas	2012	**15,412**	–	–
	2011	–	5,693	15,750
Kirste (Jarvis) Courtney	2012	**16,237**	–	–
	2011	31,000	–	–
Chris Grundy[3]	2012	–	–	–
	2011	49,000	93,000	–
Arjang Safa[4]	2012	–	–	–
	2011	62,000	38,565	115,935

[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.
[2] Mr Radford resigned as an executive director on 16 May 2011.
[3] Mr Grundy resigned as Chief Financial Officer and Company Secretary on 1 October 2010.
[4] Mr Safa resigned as General Manager Manufacturing and Supply Chain on 2 March 2011.

Contents of the financial statements

For the year ended 30 June 2012

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 2012 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.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Sydney

Date: 4 September 2012

UHY Haines Norton - ABN 85 140 758 156 NSWBN 98 133 826

Level 11, 1 York Street Sydney NSW 2000
GPO Box 4137 Sydney NSW 2001

t +61 2 9256 6600
f +61 2 9256 6611

e sydney@uhyhn.com.au
w www.uhyhn.com

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Continuing operations			
Sale of goods and services	5	**12,301**	2,247
Cost of sales		**(4,799)**	(981)
Gross profit		**7,502**	1,266
Other income			
Government grants	6	**150**	–
Interest income	6	**586**	1,052
Total other income	6	**736**	**1,052**
Operating expenses			
Staffing costs	7	**7,745**	6,772
Intellectual property		**382**	528
Quality & regulatory management		**124**	254
Business development		**684**	510
Premises, plant & equipment		**1,370**	2,025
External consultants & advisors		**1,470**	1,734
Other operating costs		**1,773**	2,416
Total operating expenses		**13,548**	14,239
Operating loss before income tax		**(5,310)**	(11,921)
Income tax benefit	8	**631**	707
Net loss after income tax expense attributable to owners of the parent entity		**(4,679)**	(11,214)
Other comprehensive income			
Exchange difference on foreign currency translation		**3**	(22)
Income tax on items of other comprehensive income		**–**	-
Total other comprehensive income		**3**	(22)
Total comprehensive income for the period attributable to owners of the parent entity		**(4,676)**	(11,236)

(Loss) per share for losses attributable to ordinary shareholders of the Company:		**Cents**	**Cents**
Basic (loss) per share	32	**(2.0)**	(4.9)
Diluted (loss) per share	32	**(2.0)**	(4.9)

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 2012

	Notes	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	**29,310**	12,356
Trade and other receivables	10	**3,030**	933
Inventories	11	**2,398**	1,610
Derivative financial instruments	12	**31**	–
Other current assets	13	**205**	212
Total current assets		**34,974**	15,111
Non-current assets			
Property, plant and equipment	15	**1,468**	1,522
Intangible assets	16	**77**	117
Other non-current assets	17	**141**	98
Total non-current assets		**1,686**	1,737
Total assets		**36,660**	16,848
Current liabilities			
Trade and other payables	18	**2,374**	1,757
Deferred revenue	19	**91**	–
Employees provisions	20	**989**	704
Borrowings	21	**6**	–
Total current liabilities		**3,460**	2,461
Non-current liabilities			
Employees provisions	20	**143**	81
Borrowings	21	**30**	–
Convertible notes	22	**7,024**	–
Total non-current liabilities		**7,197**	81
Total liabilities		**10,657**	2,542
Net assets		**26,003**	14,306
Equity			
Contributed equity	23	**73,532**	58,138
Convertible notes	22	**376**	–
Reserves	24	**1,764**	1,158
Accumulated loss		**(49,669)**	(44,990)
Total equity		**26,003**	14,306

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 2012

	Contributed equity	Convertible note	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	Note 23 $'000	Note 22 $'000	Note 24 $'000	Note 24 $'000	$'000	$'000
At 30 June 2010	**56,627**	**–**	**848**	**8**	**(33,901)**	**23,582**
Loss for the period	–	–	–	–	(11,214)	(11,214)
Other comprehensive income	–	–	–	(22)	–	(22)
Total comprehensive income (loss)	–	–	–	(22)	(11,214)	(11,236)
Transactions with owners in their capacity as owners						
Shares issued	115	–	–	–	–	115
Share-based payment	1,396	–	324	–	125	1,845
At 30 June 2011	**58,138**	**–**	**1,172**	**(14)**	**(44,990)**	**14,306**
Loss for the period	**–**	**–**	**–**	**–**	**(4,679)**	**(4,679)**
Other comprehensive income	**–**	**–**	**–**	**3**	**–**	**3**
Total comprehensive income (loss)	**–**	**–**	**–**	**3**	**(4,679)**	**(4,676)**
Transactions with owners in their capacity as owners						
Shares issued	**15,500**	**–**	**–**	**–**	**–**	**15,500**
Convertible notes issued	**–**	**381**	**–**	**–**	**–**	**381**
Transaction costs	**(188)**	**(5)**				**(193)**
Share-based payment	**82**	**–**	**603**	**–**	**–**	**685**
At 30 June 2012	**73,532**	**376**	**1,775**	**(11)**	**(49,669)**	**26,003**

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 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**10,741**	1,867
Receipts from government grants		**150**	–
Receipts from ATO for R&D tax concession		**678**	710
Payments to suppliers and employees (inclusive of GST)		**(17,166)**	(12,611)
Interest received		**615**	1,033
Income taxes paid		**(47)**	–
Net cash used in operating activities	31	**(5,029)**	(9,001)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(844)**	(1,178)
Net cash used in investing activities		**(844)**	(1,178)
Cash flow from financing activities			
Net proceeds from issue of shares and exercise of options		**15,394**	1,413
Net proceeds from borrowings		**36**	–
Net proceeds from issue of convertible notes		**7,400**	–
Net cash provided by financing activities		**22,830**	1,413
Net increase (decrease) in cash and cash equivalents		**16,957**	(8,766)
Cash at the beginning of the financial year		**12,356**	21,144
Effects of exchange rate changes on cash and cash equivalents		**(3)**	(22)
Cash and cash equivalents at the end of year	31	**29,310**	12,356

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 2012

1. Corporate information

The financial report on pages 44 to 89 covers Nanosonics Limited as a consolidated entity consisting of Nanosonics Limited (the Company) and its subsidiaries (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 on pages 9 to 12 and in the Directors' report on page 20, both of which are not part of this financial report.

The financial report was authorised for issue in accordance with the resolution of the directors on 4 September 2012.

2. Summary of significant accounting policies

a. Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis and do not take into account changes in money values, except for derivative financial instruments, which have been measured at fair value.

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 presented in Australian dollars has been rounded to the nearest one thousand dollars ($'000) unless otherwise stated.

b. Compliance with IFRS

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

c. New accounting standards and interpretations

1) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011:

- AASB 124 *Related Party Disclosures (amendment)* effective 1 January 2011
- AASB 132 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- *Improvements to AASBs* (May 2010)

The adoption of the standards or interpretations is described below:

AASB 124 *Related Party Transactions* (Amendment)

The AASB issued an amendment to AASB 124 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of the related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

AASB 132 *Financial Instruments: Presentation* (Amendment)

The AASB issued an amendment that alters the definition of a financial liability in AASB 132 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

Improvements to AASBs

In May 2010, the AASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies and disclosures, but no impact on the financial position or performance of the Group.

- AASB 7 *Financial Instruments – Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 3 to the financial statements.
- AASB 101 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the Statement of Changes in Equity.
- AASB 127 *Consolidated and Separate Financial statements*; and
- AASB 134 *Interim Financial Statements*.

Other amendments resulting from Improvements to AASBs did not have any impact on the accounting policies, financial position or performance of the Group.

2) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2012, are outlined below:

Standards to be applied by the Group effective 1 July 2012:

- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income*, effective 1 July 2012. This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

Notes to the financial statements (continued)

For the year ended 30 June 2012

Standards to be applied by the Group effective 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, effective 1 January 2013. AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.
  Consequential amendments were also made to other standards via AASB 2011-7.
- AASB 11 *Joint Arrangements*, effective 1 January 2013
- AASB 12 *Disclosure of Interests in Other Entities*, effective 1 January 2013
- AASB 13 *Fair Value Measurement*, effective 1 January 2013. AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.
- AASB 119 *Employee Benefits*, effective 1 January 2013. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10. The adoption of this standard by the Group will affect the current and noncurrent classification of provision for employee benefits.
- *Annual Improvements to IFRSs 2009–2011 Cycle*, effective 1 January 2013. This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*, effective 1 January 2013. This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.
- AASB 1053 *Application of Tiers of Australian Accounting Standards*, effective 1 July 2013. This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and – 1.

Standards to be applied by the Group beyond 1 July 2013:

- AASB 9 *Financial Instruments*, effective 1 January 2013. AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

Unless otherwise stated above, the future adoption of the above standards is not expected to have a significant effect on the way the Group accounts for and presents its financial results.

d. 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 so as to obtain benefits from their activities, 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. For the subsidiary with non-coterminous year end, management accounts for the relevant period to the Group's reporting date have been consolidated. In the opinion of the directors, the expense of providing additional coterminous statutory accounts, together with the consequential delay in producing the Group's financial statements would outweigh any benefit to shareholders.

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 separate financial statements of Nanosonics Limited less any impairment charge.

e. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Director and CEO, who is the Group's chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

f. 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 as part of the fair value gain or loss.

(iii) Group companies

The functional currency of the overseas subsidiaries is as follows:

- Nanosonics Europe GMBH is Euro; and
- Nanosonics Inc. is US dollars.

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 – foreign currency translation reserve.

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.

g. 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

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) Sale of services

Revenue from Trophon® EPR maintenance and repairs are recognised as services are rendered. Revenue from service contracts are recognised as services are rendered over the service period, typically over one year. Unearned service revenue is deferred and recognised as liability in the Statement of Financial Position.

(iii) Interest income

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

h. 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.

i. Income tax and other taxes

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

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.

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 statement of financial position.

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.

j. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

k. Borrowing costs

Borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

l. 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 in the statement of financial position.

m. Trade receivables

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

n. 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.

o. Investments and other financial assets

Classification

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and derivative financial instruments.

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 10) in the statement of financial position.

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Recognition and derecognition

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

p. Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, i.e. forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

Hedges that meet the strict criteria for hedge accounting are accounted as follows:

- for cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.
- For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit or loss.

q. Convertible notes

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

r. Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and/or accumulated impairment losses, if any. 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.

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives, or in the case of leasehold improvements, over the estimated useful life or lease term, whichever is shorter, 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	**2012**	**2011**
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 and demonstration equipment	2-3 years	2-3 years

s. 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

t. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. 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.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset.

u. Trade and other payables

Trade and other payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid and arise when the Group becomes obliged to make future payment in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

v. Provisions

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

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

Provision for warranties

Provision is made in respect of the Group's estimated liability on all products under warranty at balance date. The provision is measured at current values estimated to be required to settle the warranty obligation. The initial estimate of warranty-related costs is revised annually. The provision is included in Current liabilities – trade and other payables in the statement of financial position.

w. Employee benefits

Wages, salaries and annual leave and sick 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match as closely as possible, the estimated future cash outflows.

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.

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 33 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 programme, in which case no cost is recognised.

Employee Share Option Plan (ESOP)

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

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

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

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

x. 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.

y. 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.

z. 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.

3. Financial risk management

The Group is exposed to financial risks, predominantly interest rate risk, foreign currency risk and credit risk and it has a financial risk management program which seeks to minimise potential adverse effects on financial performance. The Board provides written principles for investment of the Group's cash reserves, so as to ensure operational liquidity whilst optimising interest earnings from a mix of instruments with one or more of Australia's four main banks.

The Group held the following financial instruments:

Financial assets	2012 $'000	2011 $'000
Cash and cash equivalents	29,310	12,356
Trade and other receivables	3,030	933
Derivative financial instruments	31	–
Total Financial assets	**32,371**	**13,289**

Financial liabilities	2012 $'000	2011 $'000
Trade and other payables	2,006	1,583
Convertible notes	7,024	–
Borrowings	36	–
Total Financial liabilities	**9,066**	**1,583**

a. Interest rate risk exposures

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk is noted below:

			Fixed interest rate maturing in:				
2012	**Notes**	**Floating interest rate**	**1 year or less**	**Over 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Cash and cash equivalents	9	3,153	26,157	–	–	–	29,310
Trade and other receivables	10	–	–	–	–	3,030	3,030
Derivative financial instruments	12	–	–	–	–	31	31
Total financial assets		**3,153**	**26,157**	**–**	**–**	**3,061**	**32,371**
Weighted average interest rate		**2.72%**	**5.46%**	**–**	**–**	**–**	**–**
Financial liabilities							
Trade and other payables	18	–	–	–	–	2,006	2,006
Convertible notes		–	–	7,024	–	–	7,024
Borrowings		–	6	30	–	–	36
Total Financial liabilities		**–**	**6**	**7,054**	**–**	**2,006**	**9,066**
Weighted average interest rate		–	8.09%	6.01%	–	–	–
Net financial assets (liabilities) 2012		**3,153**	**26,151**	**7,054**	**–**	**1,055**	**23,305**

2011	Notes	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Cash and cash equivalents		3,532	8,824	–	–	–	12,356
Trade and other Receivables		–	–	–	–	933	933
Total financial assets		**3,532**	**8,824**	**–**	**–**	**933**	**13,289**
Weighted average interest rate		**4.58%**	**6.22%**	**–**	**–**	**–**	**–**
Financial liabilities							
Trade and other payables		–	–	–	–	1,583	1,583
Total Financial liabilities		**–**	**–**	**–**	**–**	**1,583**	**1,583**
Net financial assets (liabilities) 2011		**3,532**	**8,824**	**–**	**–**	**(650)**	**11,706**

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant:

	Increase /decrease in basis points	Effect on profit before tax and other comprehensive income $'000
2012	+ 75	151
	– 100	(201)
2011	+ 75	84
	– 100	(112)

b. Foreign currency risk exposures

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries. The Group enters into foreign currency forward contracts to mitigate its foreign currency risk on its trade receivables.

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

	2012 Euro €'000	2012 USD $'000	2011 Euro €'000	2011 USD $'000
Cash and cash equivalents	59	769	152	108
Trade and other receivables	86	2,021	92	364
Trade and other payables	(59)	111	(37)	(56)
	86	2,901	207	416

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar and Euro against the Australian dollar, with all other variables held constant:

	Change in USD rate	Effect on profit before tax and other comprehensive income $'000	Change in EUR rate	Effect on profit before tax and other comprehensive income €'000
2012	3%	87	4%	3
	-7%	(203)	-9%	(8)
2011	3%	12	4%	8
	-7%	(29)	-9%	-19

c. 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 the 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.

d. Credit risk

Credit risk arises from holdings in cash and cash equivalents, trade receivables, and derivative financial instruments.

The Group invests only in deposits and floating rate notes offered by Australia's four main banks.

The Company has limited number of customers which are appointed distributors of specific markets. The Company, by policy, performs customer credit assessment prior to entering into a distribution agreement and routinely assesses the financial strength of its customers and reviews distribution agreements. As a result, the Company believes that its accounts receivable credit risk exposure is mitigated and has not experienced significant write-downs in its accounts receivable balances. As of 30 June 2012, GE Healthcare and Regional Healthcare, combined, accounts for over 99% of the trade receivables (2011: Regional Healthcare accounts for over 99% of the trade receivables).

The credit risk arising from derivative financial instruments is not 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.

e. 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.

Maturity profile

Following is the contractual maturity profiles of undiscounted cash flows from financial liabilities:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012						
Trade and other payables	–	2,006	–	–	–	2,006
Borrowings	–	2	6	36	–	44
Convertible notes	–	–	–	9,300	–	9,300
Total financial liabilities	**–**	**2,008**	**6**	**9,336**	**–**	**11,350**
2011						
Trade and other payables	–	1,583	–	–	–	1,583
Total financial liabilities	**–**	**1,583**	**–**	**–**	**–**	**1,583**

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	Notes	Carrying amount 2012	Carrying amount 2011	Fair value 2012	Fair value 2011
Financial assets					
Cash and cash equivalents		**29,310**	12,356	**29,310**	12,356
Trade and other receivables		**3,030**	933	**3,030**	933
Derivative financial instruments		**31**	–	**31**	–
		32,371	13,289	**32,371**	13,289
Financial liabilities					
Trade and other payables		**(2,006)**	(1,583)	**(2,006)**	(1,583)
Convertible notes		**(7,024)**	–	**(7,024)**	–
Borrowings		**(36)**	–	**(36)**	–
		(9,066)	(1,583)	**(9,066)**	(1,583)

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short term maturities of these instruments.
- The Group enters into derivative financial instruments with various counterparties principally with Australia's four major banks. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing models, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates and credit quality of counterparties.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2012, the Group held the following financial instruments carried at fair value in the statement of financial position:

	30 June 2012	Level 1	Level 2	Level 3
Assets measured at fair value	$'000	$'000	$'000	$'000
Foreign exchange forward contracts	31	–	31	–

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgement 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 judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities are:

Provision for warranty

The Group has recognised a provision in accordance with the accounting policy describe in note 2. The Group has made assumptions in relation to the values estimated to be required to settle the warranty obligation on all products under warranty at balance date.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share based payment transactions requires determining the most appropriate valuation model, which is depended on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share based-payment transactions are disclosed in note 33.

Recognition of deferred tax assets

Deferred tax assets are only recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the unrecognised deferred tax assets on unused tax losses are disclosed in note 8.

5. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and CEO (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 83% (2011: 70%) of external revenue. The next most significant customer accounts for 9.5% of external revenue.

Geographical segments

Geographically, the Group operates in the global 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	**2012 $'000**	**2011 $'000**
North America	10,236	344
Australia and New Zealand	1,651	1,569
Europe and other countries	414	334
Total revenue	**12,301**	**2,247**

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

Segment assets	**2012 $'000**	**2011 $'000**
North America	2	–
Australia and New Zealand	1,676	1,719
Europe and other countries	8	18
Total assets	**1,686**	**1,737**

Segment information is prepared in conformity with the accounting policies of the Group as set out in note 2 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

6. Other income

	2012 $'000	2011 $'000
Government grants	150	–
Interest income	586	1,052
Total	**736**	1,052

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. The Group did not benefit directly from any other form of governmental assistance.

7. Loss before income tax expense

	2012 $'000	2011 $'000
The loss from ordinary activities before income tax includes:		
Expenses		
Staffing costs broken into :		
Salaries and wages	6,445	5,213
Superannuation contribution	648	426
Workers compensation costs	64	62
Other employee benefits	1,495	1,049
Share based payments	603	542
Less: Staffing costs included in cost of sales	(1,510)	(520)
Total staffing costs	**7,745**	**6,772**
Depreciation and amortisation	914	1,010
Research and development costs	3,135	3,627
Rental expenses relating to operating leases	472	387
Bad debts provision (reversal)	(60)	124
Inventories provision / write off	294	736
Unrealised gain on forward contracts	31	–
Realised gain on forward contracts	16	–

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.

8. Taxation

	2012 $'000	2011 $'000
(a) Income tax expense		
Operating loss from ordinary activities	5,311	11,921
The prima facie income tax benefit applicable to the operating loss is calculated at 30% (2011:30%)	1,593	3,576
Research and development offset/allowance	(941)	272
Non-deductible items:		
Equity based benefits	(181)	(163)
Entertainment	(12)	(11)
Other temporary differences	(21)	(199)
	438	3,475
Deferred tax benefit not recognised	(454)	(3,478)
Research and development tax offset received relating to previous year	678	710
Adjustment in respect of current income tax of previous years	(31)	–
Income tax benefit reported on the Consolidated Statement of Comprehensive Income	**631**	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 are:

	2012 $'000	2011 $'000
Estimated tax losses carried forward at the end of the year	50,201	51,495
Beginning of the year unrecognised tax losses carried forward	51,495	39,910
Adjustment in respect of unrecognised tax losses carried forward from previous year	(2,755)	–
Tax losses for the year	1,461	11,585
	50,201	51,495

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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

9. Current assets – Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and on hand	952	511
Deposits on call	2,201	3,021
Short term deposits	26,157	8,824
	29,310	12,356

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 3. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10. Current assets – Trade and other receivables

	2012 $'000	2011 $'000
Trade receivables net of allowance for impairment loss	2,717	720
GST receivable	302	199
VAT receivable	5	8
Other receivables	6	6
	3,030	933

As at 30 June 2012, the aging analysis of trade receivables is as follows:

			Past due but not impaired		
	Total $'000	Neither past due nor impaired $'000	< 30 days $'000	30-60 days $'000	>60 days $'000
2012	2,717	2,079	170	465	3
2011	720	720	–	–	–

Information about the Group's exposure to foreign currency risk in relation to trade and other receivables is provided in note 3.

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 2012, trade receivables with a nominal value of $1,000 (2011: $124,000) were considered impaired.

11. Current assets – Inventories

	2012 $'000	2011 $'000
Raw materials and stores – at cost	1,508	1,149
Work in progress – at cost	96	73
Finished goods – at net realisable value	794	388
	2,398	1,610

Write-downs of inventories to net realisable values during the year ended 30 June 2012 amounted to $293,000 (2011: $713,000). The expense has been included in other operating costs in the income statement.

Roll forward of provision for inventories:

	2012 $'000	2011 $'000
Beginning balance	756	43
Provided during this year	293	713
Utilised during this year	(564)	–
Ending balance	**485**	756

12. Current assets – Derivative financial instruments

	2012 $'000	2011 $'000
Foreign exchange forward contracts	31	–
	31	**–**

13. Current assets – Other

	2012 $'000	2011 $'000
Prepayments	205	212
	205	212

14. Parent company investments in controlled entities

			Equity holding %	
Name of controlled entity	**Country of incorporation**	**Class of shares**	**2012**	**2011**
Nanosonics Europe GmbH	Germany	Ordinary	100%	100%
Saban Ventures Pty Limited	Australia	Ordinary	100%	100%
Nanosonics Inc.	USA	Ordinary	100%	100%

Notes to the financial statements (continued)

For the year ended 30 June 2012

15. Non-current assets – Property plant and equipment

	Laboratory fit out	Laboratory equipment	Office furniture & equipment	Leasehold improvements	Manufacturing equipment	Service & demo equipment	Computer equipment & software	Total
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	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**
Year ended 30 June 2011								
Opening net book amount	17	69	147	130	720	80	359	**1,522**
Additions	–	26	24	204	225	194	171	**844**
Disposals	–	–	–	–	–	(3)	(21)	**(24)**
Depreciation charge	(4)	(30)	(53)	(185)	(271)	(112)	(219)	**(874)**
Closing net book amount at 30 June 2012	13	65	118	149	674	159	290	**1,468**
At 30 June 2012								
Cost	343	324	799	876	1,459	621	781	**5,203**
Accumulated depreciation	(330)	(259)	(681)	(727)	(785)	(462)	(491)	**(3,735)**
Net book amount at 30 June 2012	**13**	**65**	**118**	**149**	**674**	**159**	**290**	**1,468**

16. Non-Current Assets – Intangible assets

	2012 $'000	2011 $'000
Development Costs		
At cost	201	201
Accumulated amortisation	(124)	(84)
Net book value	**77**	**117**

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 5 years. Amortisation of $40,000 (2011:$40,000) is included in depreciation and amortisation expense in the income statement.

17. Non-Current Assets – Other

	2012 $'000	2011 $'000
Refundable deposits and bonds	141	98

18. Current liabilities – Trade and other payables

	2012 $'000	2011 $'000
Trade payables	1,174	814
Other payables	832	769
Provision for warranty	368	174
Total	**2,374**	1,757

Roll forward of provision for warranty:

	2012 $'000	2011 $'000
Beginning balance	174	45
Provided during this year	236	211
Utilised during this year	(42)	(82)
Ending balance	**368**	**174**

The Group has recognised a provision for warranty in accordance with the accounting policy describe in note 2. The Group has made assumptions in relation to the values estimated to be required to settle the warranty obligation on all products under warranty at balance date.

19. Current liabilities – Deferred revenue

	2012 $'000	2011 $'000
Beginning balance	–	–
Deferred during the year	123	–
Released to the income statement	(32)	–
Ending balance	**91**	–

20. Employee provisions

	2012 $'000	2011 $'000
Provision for bonuses	619	447
Provision for annual leave	370	257
Provision for long service leave	143	81
Total	**1,132**	785
Employee provisions – current		
Provision for bonuses	619	447
Provision for annual leave	370	257
Total	**989**	704
Employee provisions – non-current		
Provision for long service leave	143	81
Total	**143**	81

The 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. As at 30 June 2012, there are no employees that have reached the required service period and are expected to complete the required service period within 12 months. The comparative provision for long service leave as at 30 June 2011 has been reclassified to noncurrent liabilities as it is not due to be settled within 12 months or the normal operating cycle of the business.

Notes to the financial statements (continued)

For the year ended 30 June 2012

Employee benefits:	2012 $'000	2011 $'000
Aggregate liability for employee benefits, including on-cost:		
Payables	150	78
Employee benefits provision	513	338

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.

21. Borrowings

	2012 $'000	2011 $'000
Finance lease obligations (refer note 26)	36	–
Current portion	6	–
Noncurrent portion	30	–
Total	**36**	–

22. Convertible notes

	2012 $'000	2011 $'000
Convertible notes (Face value)	7,500	–
Less: Issue cost	(100)	–
	7,400	–
Broken down as follows :		
Convertible notes – Non–current liabilities	7,024	
Convertible notes – Equity component	376	
	7,400	

On 28 June 2012, the Company issued unsecured Tranche A Convertible note of $4,000,0000 and Tranche B Convertible note of $3,500,000 which matures 4 years after the issue date. The convertible notes bear 6% interest per annum on a simple interest basis payable on each anniversary of issue date, redemption date and conversion date except that no interest repayment will be made to the noteholder on the 1st 2 years but the interest will accrue and form part of the face value of the note but will not bear any further interest. After that period, the noteholder may elect whether to receive interest in cash or to have such interest accrue and form part of the Face Value (but this will not bear further interest).

The Tranche A Convertible Note may be converted at any time up until the Maturity Date at $0.75 per share, subject to certain adjustments.

Tranche B Convertible Note will not be convertible until:

(a) Shareholders approve the conversion rights under the Tranche B Convertible Note or

(b) the Company has sufficient placement capacity for such a Conversion Right to be effected and the ASX has confirmed in writing that this does not result in the Tranche B Convertible Note being regarded as “equity securities” under the ASX Listing Rules or that such Conversion Right otherwise will be exercisable for the purposes of ASX Listing Rule 7.1. The conversion price of Tranche B Convertible note is $0.75 per share, subject to certain adjustments.

23. Contributed equity

Share capital

259,982,918 ordinary fully paid shares (2011: 230,490,585)

	Number of shares	$'000
Movements in ordinary shares on issue		
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**
Share options exercised	247,050	82
Shares issued under share placement (net of issue cost)	29,245,283	15,312
At 30 June 2012	**259,982,918**	**73,532**

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 2012 there were 3,758,269 (2011: 3,386,200) options to acquire one ordinary share each outstanding, of which 1,236,484 (2011: 655,700) 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 33.

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.

24. Reserves

	2012 $'000	2011 $'000
Employee equity benefits reserve	1,775	1,172
Foreign currency translation reserve	(11)	(14)
Balance 30 June	**1,764**	1,158

Employee equity benefits reserve	2012 $'000	2011 $'000
Balance 1 July	1,172	848
Share-based payment (ESOP)	572	264
Share-based payment (GSOP)	31	60
Balance 30 June	**1,775**	1,172

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 33 for further details of these plans.

Notes to the financial statements (continued)

For the year ended 30 June 2012

Foreign currency translation reserve	2012 $'000	2011 $'000
Balance 1 July	**(14)**	8
Exchange difference on foreign currency translation during the year	3	(22)
Balance 30 June	**(11)**	(14)

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

25. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2011: Nil).

26. Capital and leasing commitments

	2012 $'000	2011 $'000
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	**424**	99
One year or later and no later than five years	185	155
	609	**254**

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

Finance lease and hire purchase commitments	2012 $'000		2011 $'000	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	8	6	–	–
After one year but not more than 5 years	36	30	–	–
Total minimum lease payments	**44**	**36**	–	–
Less finance charges	8	–	–	–
Present value of minimum lease payments	**36**	**36**	–	–

27. 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 2012.

28. Auditor's remuneration

UHY Haines Norton is the Group's auditor. 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:

	2012 $	2011 $
Audit services		
Audit and review of financial reports	49,000	37,300
Total remuneration for audit services	**49,000**	37,300
Non-audit services		
Assurance related services		
Audit of regulatory returns	3,600	3,600
Total remuneration for assurance related services	**3,600**	3,600
Total remuneration for non-audit services	**3,600**	3,600

29. Related party disclosure

(a) Parent entities

The parent entity within the Group is Nanosonics Limited which at 30 June 2012 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 30.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2012 $'000	2011 $'000
Sales of goods and services		
Sale of products to related parties	**1,186**	1,520
Purchases of goods		
Purchases of goods and services from related parties	**649**	634
Superannuation contributions		
Contributions to superannuation funds on behalf of all employees	**637**	428
Other transactions		
Rent of premises and equipment from related parties	**189**	120

(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:

	2012 $'000	2011 $'000
Current receivables (supply of goods and services)	**728**	372
Current payables (purchases of goods and services)	**89**	44

(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 (2011: 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.

30. 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, *Managing Director and CEO* (appointed Managing Director and CEO 19 December 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 ended 30 June 2012 unless shown otherwise:

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

Mr Gerard Putt, *Head of Manufacturing* (appointed 27 April 2011)

Dr. Jianhe Chen, *Quality Assurance Manager*

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

Ms. Kirste (Jarvis) Courtney, *Human Resources Manager*

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

Mr Arjang Safa, *General Manager, Manufacturing & Supply Chain* (resigned 2 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 as noted above.

(c) Directors and key management personnel compensation

	Group and Company	
	2012 $'000	**2011 $'000**
Director fees	208,915	211,273
Short-term employee benefits	1,270,071	1,239,365
Long-term benefits	165,095	100,063
Termination benefits	–	61,334
Share based payments	420,822	293,345
Total compensation	**2,064,903**	1,905,380
Total compensation includes total remuneration for executive and non-executive directors of the parent entity of	**669,955**	880,271

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 36 to 41.

Notes to the financial statements (continued)

For the year ended 30 June 2012

(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 38 to 41.

(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	**2012**	**-**	**-**	**-**	**-**	**–**	**-**	**–**
	2011	-	-	-	-	–	-	–
David Fisher	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	–	–	–	–	–	–	–
Richard England	**2012**	**50,000**	**–**	**–**	**–**	**50,000**	**33,000**	**17,000**
	2011	50,000	–	–	–	50,000	16,500	33,500
Ron Weinberger	**2012**	**200,000**	**51,659**	**–**	**–**	**251,659**	**66,000**	**185,659**
	2011	1,175,000	200,000	–	(1,175,000)	200,000	–	200,000
David Radford[1]	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	1,000,000	700,000	(705,000)	(795,000)	200,000	–	200,000
Key management personnel								
McGregor Grant[4]	**2012**	**1,000,000**	**–**	**–**	**–**	**1,000,000**	**166,667**	**833,333**
	2011	–	1,000,000	–	–	1,000,000	–	1,000,000
Gerard Putt[5]	**2012**	**400,000**	**–**	**–**	**–**	**400,000**	**66,667**	**333,333**
	2011	–	400,000	–	–	400,000	–	400,000
Jianhe Chen	**2012**	**200,000**	**26,984**	**–**	**–**	**226,984**	**66,000**	**160,984**
	2011		200,000	–	–	200,000	–	200,000
Michael Potas[6]	**2012**	**50,250**	**28,449**	**–**	**–**	**78,699**	**50,250**	**28,449**
	2011	250,000	–	(175,000)	(24,750)	50,250	24,750	25,500
Kirste (Jarvis) Courtney	**2012**	**220,000**	**29,863**	**-**	**-**	**249,863**	**153,000**	**96,863**
	2011	120,000	100,000			220,000	79,500	140,500
Chris Grundy[2]	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	350,000	100,000	–	(350,000)	100,000	100,000	–
Arjang Safa[3]	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	430,000	200,000	(434,500)	(195,500)	–	–	–

[1] Option holder resigned 27 May 2011 and 200,000 options did not lapse and will vest to Mr Radford at the discretion of the Remuneration Committee.
[2] Option holder resigned 1 October 2010 and was granted options under the GSOP plan prior to termination.
[3] Option holder resigned 2 March 2011 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 41.

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	**2012**	**28,407,457**	**–**	**–**	**28,407,457**
	2011	28,424,124	–	(16,667)	28,407,457
David Fisher	**2012**	**812,705**	**–**	**–**	**812,705**
	2011	953,940	–	(141,235)	812,705
Richard England	**2012**	**25,000**	**–**	**25,000**	**50,000**
	2011	25,000	–	–	25,000
Ron Weinberger	**2012**	**808,013**	**–**	**–**	**808,013**
	2011	114,083[3]	1,175,000	(481,070)	808,013
David Radford[1]	**2012**	**-**	**–**	**–**	**–**
	2011	125,207	795,000	(920,207)	–
Key management personnel					
McGregor Grant[2]	**2012**	**–**	**–**	**15,000[4]**	**15,000[4]**
	2011	–	–	–	–
Gerrard Putt[2]	**2012**	**18,500[4]**	**–**	**–**	**18,500[4]**
	2011	18,500[4]	–	–	18,500[4]
Jianhe Chen	**2012**	**–**	**–**	**–**	**–**
	2011	–	–	–	–
Michael Potas[2]	**2012**	**5506**	**–**	**–**	**5,506**
	2011	5,880	24,750	(25,124)	5,506
Kirste (Jarvis) Courtney	**2012**	**5,880**	**–**	**–**	**5,880**
	2011	5,880			5,880
Chris Grundy[1]	**2012**	**–**	**–**	**–**	**–**
	2011	163,845	350,000	(113,845)	400,000
Arjang Safa[1]	**2012**	**–**	**–**	**–**	**–**
	2011	39,083	195,500	(234,583)	–

[1] Shareholder resigned in the 2011 financial year.
[2] Shareholder appointed in the 2011 financial 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.
[4] This represents shareholding of a close family member of the KMP.

Notes to the financial statements (continued)

For the year ended 30 June 2012

(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 2012 (2011: $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 2012 and 30 June 2011. 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 Pty Ltd and Domkirke 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:

	2012 $'000	2011 $'000
Amounts recognised as revenue		
Products and services sold	**1,186**	1,520
Amounts recognised as expenses		
Services received	**150**	168
Products purchased and services received	**499**	466
Rent of premises	**189**	120

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

	2012 $'000	2011 $'000
Assets		
Current receivables	**728**	372
Liabilities		
Current liabilities	**89**	44

31. Notes to the cash flow statements

(a) Reconciliation of cash	Notes	2012 $'000	2011 $'000
Cash and cash equivalents	9	**29,310**	12,356

For the purpose of the Statement of cash flows, cash includes cash on hand and at bank, deposits on call and short term deposits, 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	2012 $'000	2011 $'000
Operating loss after income tax	(4,679)	(11,214)
Adjustment for:		
Depreciation and amortisation	914	1,010
Share based payments expense	603	542
Loss on disposal of property, plant and equipment	24	–
Changes in assets and liabilities		
(Increase) / decrease in trade and other receivables	(2,097)	(472)
(Increase) / decrease in inventories	(788)	(39)
(Increase) / decrease in other current assets	(24)	(19)
(Increase) / decrease in other non-current assets	(43)	15
Increase /(decrease) in trade and other payables and deferred revenue	714	753
Increase /(decrease) in employee provisions	347	423
Net cash used in operating activities	**(5,029)**	(9,001)

(c) Credit standby arrangements unused	Facility Limit $'000	Facility used by 30 June 2012 $'000	Facility available at 30 June 2012 $'000
Commercial card and other credit facilities	256	21	235
Total facility	**256**	**21**	**235**

32. Loss per share

	2012 Cents	2011 Cents
(a) Basic loss per share		
Loss attributable to ordinary shareholders of the Company	**(2.0)**	(4.9)
(b) Diluted loss per share		
Loss attributable to ordinary shareholders of the Company	**(2.0)**	(4.9)
(c) Losses used in calculating loss per share		
Net loss after income tax expense attributable to shareholders	**(4,679)**	(11,214)
(d) Weighted average number of shares used		
For basic earnings per share	**234,650,192**	227,184,185
For diluted earnings per share	**234,650,192**	227,184,185

(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 33 to these financial statements.

33. 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.

195,000 share options were issued under the GSOP during the financial year (2011:100,000 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.

657,442 share options were issued under the ESOP during the financial year (2011: 3,060,000 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 33 to these financial statements.

(c) Unexpired options

Number of Options	ESOP 2012	ESOP 2011	GSOP 2012	GSOP 2011	All Option Plans 2012	All Option Plans 2011
Unexpired options as at 1 July	**3,032,700**	4,553,000	**353,500**	1,710,000	**3,386,200**	6,263,000
Granted during the year	657,442	3,060,000	195,000	100,000	852,442	3,160,000
Exercised during the year	(126,100)	(3,178,650)	(120,950)	(1,456,500)	(247,050)	(4,635,150)
Forfeited during the year	–	(1,199,650)	–	–	–	(1,199,650)
Expired during the year	(233,323)	(202,000)	–	–	(233,323)	(202,000)
Unexpired options as at 30 June	**3,330,719**	3,032,700	**427,550**	353,500	**3,758,269**	3,386,200
Number of holders as at 30 June	**46**	21	**9**	8	**54**[1]	29

[1] Includes a common holder of both ESOP and GSOP options.

Set out below are details of unexpired options granted under the plans as at 30 June 2012:

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
ESOP	$0.30	Nov-08	$0.06	17-Nov-12	60,000		(15,000)		45,000	45,000
GSOP	$0.30	Nov-08	$0.06	17-Nov-12	50,000		(50,000)		–	–
ESOP	$0.30	Jun-09	$0.30	16-Jun-13	35,000			(35,000)	–	–
ESOP	$0.35	Jun-09	$0.23	26-Jun-13	612,700		(111,100)		501,600	501,600
GSOP	$0.35	Jun-09	$0.23	26-Jun-13	153,500		(70,950)		82,550	82,550
GSOP	$0.55	Jan-10	$0.30	5-Jan-14	50,000				50,000	33,000
ESOP	$0.54	Aug-10	$0.32	16-Jun-14	165,000			(165,000)	–	-
ESOP	$0.56	Aug-10	$0.31	19-Jul-14	500,000				500,000	165,000
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	66,000
ESOP	$0.92	Mar-11	$0.58	23-Feb-15	60,000			(30,000)	30,000	10,000
ESOP	$0.85	May-11	$0.50	28-Apr-16	1,400,000				1,400,000	233,334
GSOP	$0.53	Nov-11	$0.63	21-Nov-15	–	195,000			195,000	–
ESOP	$0.00	Jan-12	$0.58	1-Oct-12	–	318,057			318,057	–
ESOP	$0.00	Apr-12	$0.51	1-Apr-13	–	319,080		(3,323)	315,757	–
ESOP	$0.00	Jun-12	$0.49	1-Apr-15	–	20,305			20,305	–
Totals as at year end					**3,386,200**	**852,442**	**(247,050)**	**(233,323)**	**3,758,269**	**1,236,484**

(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 2012 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
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
GSOP	$0.53	Nov-11	21-Nov-15	$0.63	73.09%	0%	3.44%	$0.38
ESOP	$0.00	Jan-12	1-Oct-12	$0.58	54.58%	0%	3.40%	$0.58
ESOP	$0.00	Apr-12	1-Apr-13	$0.51	50.45%	0%	3.28%	$0.51
ESOP	$0.00	Jun-12	1-Apr-15	$0.49	49.04%	0%	2.43%	$0.49

(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. No shares were issued under the DESP during the financial year.

(g) Shares granted

During the financial year there were no shares granted 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 2009	0.2880	0.2950	336,424
DESP	0.4251	26 June 2009	0.4251	0.4100	176,400
DESP	0.4251	26 June 2009	0.4251	0.4100	75,000
DESP	0.9080	3 May 2011	0.9080	0.9080	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

Number of Shares	DESP		EESP		All Share Plans	
	2012	2011	2012	2011	2012	2011
Employee Shares on issue as at 1 July	**371,424**	495,757	**–**	–	**371,424**	495,757
Granted during the year	–	102,403	**–**	–	–	102,403
Withdrawn during the year	(65,941)	(226,736)	**–**	–	(65,941)	(226,736)
Forfeited during the year	–	–	**–**	–	–	–
Employee Shares on issue as at 30 June	**305,483**	371,424	**–**	–	**305,483**	371,424
Number of holders as at 30 June	**30**	39	**–**	–	**30**	39

(k) Expenses arising from share-based compensation transactions	2012 $'000	2011 $'000
Options issued under ESOP	572	389
Options issued under GSOP	31	60
Shares issued under DESP	–	93
Total share-based compensation	**603**	542

34. Parent entity information

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

	2012 $'000	2011 $'000
Current assets	34,929	15,055
Total assets	**36,691**	16,866
Total current liabilities	3,454	2,483
Total liabilities	**10,765**	2,583
Contributed Equity	73,532	58,138
Convertible Notes	376	–
Share option reserve	1,747	1,146
Accumulated losses	(49,729)	(45,001)
Total equity	**25,926**	14,283

	2012 $'000	2011 $'000
Profit or loss for the year	(4,728)	(11,229)
Total comprehensive income (loss)	**(4,728)**	(11,229)
Contractual commitment		
For acquisition of manufacturing equipment	**36**	–

Contingent liabilities

The parent entity had no contingent liabilities other than the government grants received as disclosed in note 27.

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2 except for the following:

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

35. Events subsequent to reporting date

On 4 May 2012, the Company announced the Share Purchase Plan offering up to 9,433,962 shares at the issue price of $0.53 per share. The Share Purchase Plan closed on 16 July 2012 from which the Company issued 718,496 shares and raised $381,000 less share issue cost of $39,000.

No other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

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

Directors' declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 44 to 89 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 2012 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 Managing Director and CEO and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Richard England
Director
Sydney
4 September 2012

Independent auditor's report to the members

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 2012, 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 2b, 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.We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Nanosonics Limited, would be in the same terms if given to the directors as at the time of this auditor's report

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

UHY Haines Norton
Chartered Accountants

Auditor's Opinion

In our opinion:

In our opinion the financial report of Nanosonics Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

The financial report also complies with International Financial Reporting Standards as disclosed in Note 2b;

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 38 to 41 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Nanosonics Limited for the year ended 30 June 2012, complies with s 300A of the Corporations Act 2001.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Sydney
Dated 4 September 2012

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Shareholder information

The shareholder information set out below was applicable as at 31 August 2012.

A. Equity security holders

Twenty largest holders of quoted equity securities.

Ordinary shares	Number of quoted shares held	Percentage
Mr Bernard Stang	28,717,390	11.02%
Mr Maurie Stang[1]	28,435,758	10.91%
Mr Steve Kritzler	22,284,773	8.55%
National Nominees Limited	19,617,934	7.53%
Aust Executor Trustees Sa Ltd <Tea Custodians Limited>	13,350,565	5.12%
J P Morgan Nominees Australia Limited	12,017,805	4.61%
BNP Paribas Noms Pty Limited <Master Cust DRP>	7,630,773	2.93%
HSBC Custody Nominees (Australia) Limited	6,022,839	2.31%
Citicorp Nominees Pty Limited	5,617,634	2.15%
HSBC Custody Nominees (Australia) Limited – A/C 2	3,718,830	1.43%
Link Traders (Aust) Pty Ltd	3,499,806	1.34%
Asia Union Investments Pty Ltd	3,000,000	1.15%
Towns Corporation Pty Ltd <Pae Family A/C>	2,471,698	0.95%
Lowan Investments Pty Ltd <Lowan Super Fund A/C>	2,211,321	0.85%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,891,314	0.73%
M F Custodians Ltd	1,585,000	0.61%
Bennelong Resources Pty Ltd <John Egan Super Fund A/C>	1,500,000	0.58%
Moore Family Nominee Pty Ltd <Moore Family Super Fund A/C>	1,500,000	0.58%
Bevan Holdings Pty Ltd <Phillip David Stricker Family>	1,262,487	0.48%
Darlington Weir Pty Limited	1,219,090	0.47%
Total top 20 holders	**167,555,017**	**64.27%**
Total all other holders	93,146,097	35.73%
Total shares on issue	**260,701,114**	**100%**

[1] Includes indirect holdings of 116,368 shares.

Unquoted equity securities	Number of options over ordinary shares	Number of holders
Options on issue		
General Share Options to take up unissued ordinary shares	427,550	9[2]
Employee Share Options to take up unissued ordinary shares	3,316,533	46[2]
Total options on issue	**3,744,103**	**54[2]**

[2] Includes a common holder of both ESOP and GSOP options.

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	140	–
1,001 – 5,000	376	3
5,001 – 10,000	330	8
10,001 – 100,000	1,093	36
100,001 and over	222	7
Total Holders	**2,161**	**54**

There were 82 holders of less than a marketable parcel of 981 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	28,717,390	11.02%
Mr Maurie Stang[1]	28,435,758	10.91%
Mr Steve Kritzler	22,284,773	8.55%

[1] Includes indirect holdings of 116,368 shares

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)
APIC	Association for Professionals in Infection Control
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
Company	Nanosonics Limited
Date of this report	4 September 2012
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. FY2012 is the financial year ending 30 June 2012
Glutaraldehyde	An used to disinfect medical and dental equipment. It is 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) .
GMP	Good Manufacturing Practices
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
HAI	Healthcare Acquired/Associated Infections
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
IP	Intellectual Property
ISO 13485	Quality Management System for Medical Devices – Requirements for Regulatory Purposes
IVF	In-vitro fertilisation

Glossary (continued)

KMP	Key management personnel (excludes non-executive directors)
MRSA	Methicillin resistant staphylococcus aureus, a bacterium resistant to broad-spectrum antibiotics
NanoNebulant™	The biocide used in Nanosonics' technological process
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 2012
RoHS compliant	Restriction of Use of Hazardous Substances
RSNA	Radiological Society of North America
S+	Sterilisation Plus, including prionicidal efficacy – Nanosonics new dimension of sterilisation based on the Company's platform technologies
TEE	Transoesophageal Echocardiagram, a type of probe
TGA	Therapeutic Goods Administration – Australia
Trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
Trophon® EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes. See also www.trophon.com.au
VAT	Value Added Tax

Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

Maurie Stang
Richard England
David Fisher
Michael Kavanagh
Ron Weinberger

Secretary and Chief Financial Officer

McGregor Grant

Registered Office

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

European Office

Nanosonics Europe GmbH
Falkenried 88. House A
D-20251 Hamburg Germany
Ph: +49 40 468 56885

Share Register

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne, VIC 3001 Australia
Ph: +61 3 9415 4088
Ph: 1300 555 159 (within Australia)
www.au.computershare.com

Investor Relations

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

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

Auditor

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

Legal Advisors

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

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

Baker & McKenzie
AMP Centre
Level 27, 50 Bridge Street
Sydney NSW 2000 Australia

Dibbs Barker
Level 8, Angel Place
123 Pitt Street
Sydney NSW 2000 Australia

Bankers

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

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

2012 Annual General Meeting

The 2012 AGM of Nanosonics Limited will be held:
At 11.00am on Friday 9th November 2012

Website Address

www.nanosonics.com.au

created by mobius.com.au

Nanosonics Limited

Unit 24, 566 Gardeners Road
Alexandria NSW 2015 Australia

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

www.nanosonics.com.au