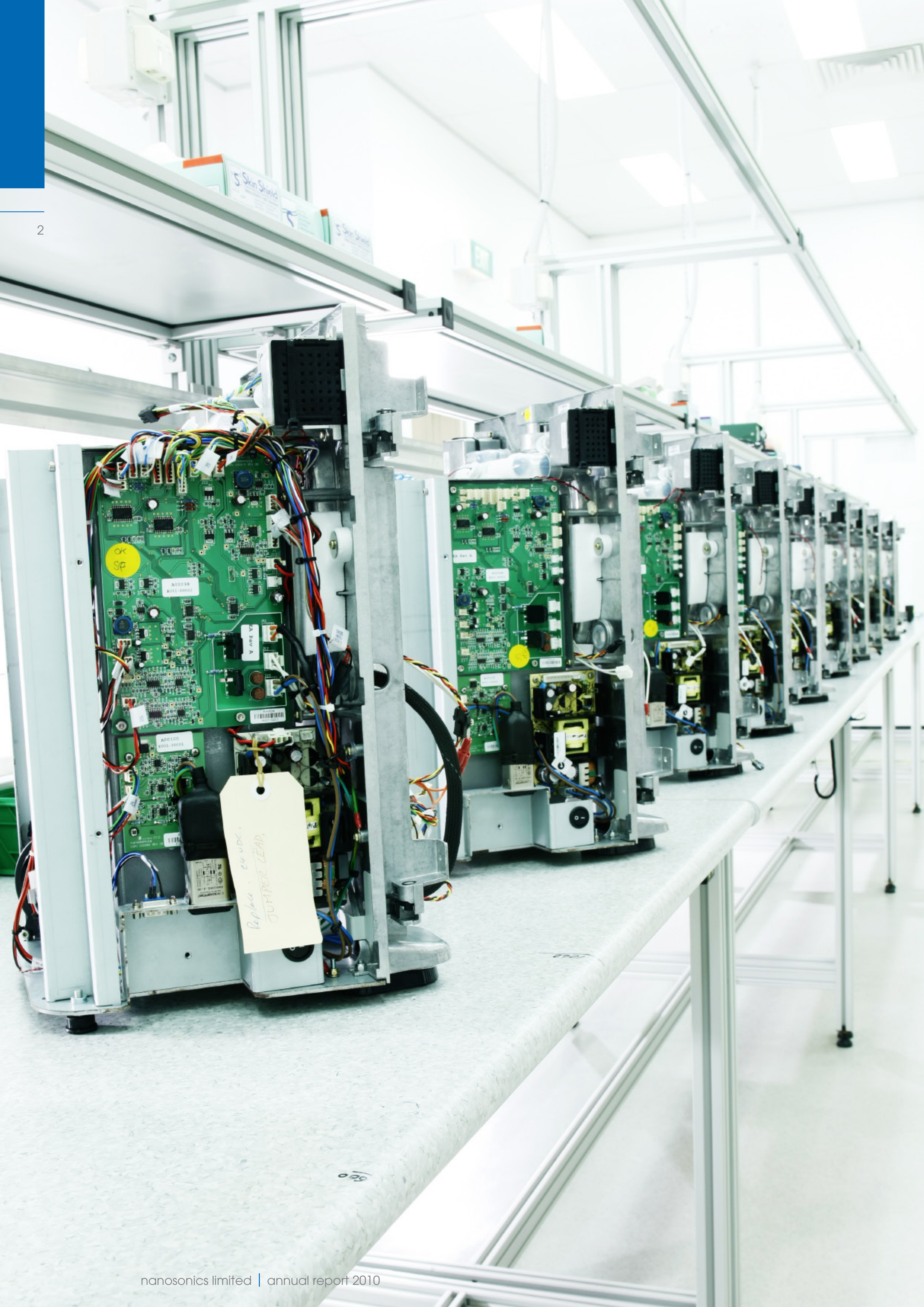
nanosonics

annual report 2010

Globalising new standards in infection control


Skin Shield

Contents

Company overview

Nanosonics is an Australian publicly listed company headquartered in Alexandria, Sydney with its European sales office in Germany. The Company aims to become a global leader in low temperature, point of care disinfection and sterilisation solutions in the healthcare market, whilst expanding its platform technologies into additional market segments.

The Company owns proprietary low-temperature disinfection and sterilisation technologies which have a number of core benefits when compared to current market offerings. Since 2009 the Company has transitioned from a pure research and development focused entity into an emerging global business.

Nanosonics' first product to market is the Trophon® EPR, a device specifically designed for the disinfection of ultrasound transducers. Nanosonics is committed to reducing the spread of infection by providing best in class products that set new global standards in ease of use, operator and patient safety, disinfection efficacy and environmental friendliness.

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

Competitive advantages

Scalable platform technology: Platform technology adaptable to a variety of international market opportunities.

Knowledge and expertise: Extensive development experience with the NanoNebulant™ technology, driving speed and responsiveness.

Well protected IP: Strategic use of Intellectual Property.

Highly regulated markets: High regulatory hurdles in the disinfection and sterilisation markets limit new entrants.

First Mover Advantage: First automated, low temperature and environmentally friendly ultrasound reprocessor for use at the point of care.

Key business drivers

Global regulatory environment driving demand: Rapidly changing healthcare guidelines, driving automated high level disinfection (HLD) at the point of care. Legal requirement for HLD of transducers in ANZ, USA and Canada.

Global acceptance of the Trophon EPR: Endorsements from original equipment manufacturers (OEMs), distributors and end users. Growing demand for point of care and environmentally friendly customer driven product solutions.

Financial: Dual revenue stream from initial device sales and ongoing revenue from consumable sales

Market: Market is continuously expanding due to increasing use of ultrasound and minimally invasive procedures

Growth milestones

SHARE PRICE **$0.54** AT 30 JUNE **UP 35%**

MARKET CAPITALISATION **$122** MILLION **UP 56%**

	2008	2009	**2010**
Closing share price on 30 June	$0.20	$0.40	**$0.54**
Shares on issue at 30 June (millions)	195	196	**225**
Market capitalisation at 30 June (A$ millions)	$39	$78	**$122**

Preparing for global roll-out of the Trophon EPR

				Launch into key European countries
			First devices installed ANZ	Continued roll out in ANZ and France
		Production commenced	First devices installed France	200 unit order for Australia
	Appointment new CEO with strong industry experience	TGA approval	510(k) application to FDA USA	Over-subscribed capital raising
Appointment of distributors	Lodgement TGA application	CE Mark approval	Appointment of distributors in Europe	In use validation of quality system

2008 2009 2010

Globalising the Trophon EPR

Asia Pacific, Australia and New Zealand

Achievements

- TGA license
- Controlled roll out FY2009 and FY2010
- Strong market demand
- Early adoption by key private and government sectors
- Implementation of 200 unit order Q1-FY2011.

Key market drivers

- High level disinfection of intra-cavity procedures in between patients is a TGA requirement. ASUM guidelines support this legal requirement.
- Accepted technology for High level disinfection - now included in Australian Sonographers' Association standards.

Total market opportunity estimated to be A$40M

Europe

Achievements

- CE Mark
- Established office in Hamburg, Germany
- Product introduced into France in 2009
- Commercial roll-out scheduled for FY2011.

Key market drivers

- France: National move banning the use of glutaraldehydes
- National infection control initiatives in many countries in Europe driving increased focus upon ultrasound practices and quality assurance.

Total market opportunity in excess of A$200M

North America

Achievements

- CMDCAS device approval (Canada), pending consumable approval
- FDA 510 (k) application filed (USA)
- Strong OEM support
- Launch scheduled 2011.

Key market drivers

- Centre for Disease Control (CDC) recommends use of hydrogen peroxide based disinfection solution
- FDA mandates High level disinfection of intra-cavity procedures between patients. This is supported by the American College of Radiologists' guidelines.

Total market opportunity in excess of A$500M


nanosonics
1-Feb-2010 9:44 AM
Successful disinfect
Cycle Counter: 131
trophon EPR
High Level Disinfection+

2010 Chairman's review

It is with great pleasure that I present Nanosonics' Annual Report for 2010. This year has been another year of significant achievement for Nanosonics, with a focus on preparation for a global product launch of the Trophon EPR, the Company's first product and one which sets new standards in infection control. The Trophon EPR is the first point of care, automated system for high level disinfection for ultrasound transducers, offering unparalleled benefits in terms of occupational health and safety, efficacy and environmental considerations.

Hospital acquired infections (HAIs) continue to be a significant cause of lost productivity and increased cost, prolonging patients' length of hospitalisation across the globe, further increasing the burden on already strained healthcare systems.

Commonly reported infections include 'Golden Staph' and *Clostridium difficile*. During the year we have seen the creation of 'Infection Control Task-Forces' in many countries which are driving increased awareness and education about best practices in infection control. These practices have seen the need for quality assured disinfection procedures being required to maintain funding, or for insurance companies to agree to pay for treatments.

Recent news stories on infection control include a major hospital chain in the US where there were significant breaches of protocols and practices putting patients at risk of cross-infection. This resulted in thousands of patients undergoing testing for diseases including Hepatitis and HIV. Similar events have recently occurred in Australia.

The infection control market continues to grow and evolve, together with rising public awareness and expectations. In parallel, there has been rapid development in medical devices which require "low-temperature" re-processing. Nanosonics is at the forefront of the development of disinfection and sterilisation solutions to meet this rapidly changing healthcare model. Nanosonics' Trophon EPR is the first fully automated point of care solution for the disinfection of ultrasound transducers and represents the Company's first response to this developing market requirement. During the year, the Company continued a controlled release of the Trophon EPR into Australia, New Zealand and France, with all of these markets reporting good customer acceptance and strong demand for this revolutionary product. Demand for the Trophon EPR continues to exceed the Company's initial expectations.

Nanosonics is now undertaking a scale-up program, initially with two ISO accredited assembly lines being put in place. These investments will underpin the Company's growth into the key North American and European markets, providing additional risk mitigation in the event of unforeseen challenges.

Nanosonics plans to expand its proprietary NanoNebulant™ technology into a number of additional high-value applications. To this end, the Company has expanded its engineering and R&D teams as well as actively planning a move to new and expanded headquarters offering greater capability to support the Company's planned growth.

In support of its growth programs, Nanosonics continues to recruit skilled personnel, particularly in various engineering disciplines, and to expand its IT infrastructure and quality systems.

During FY2010, the Company issued 28.4 million new shares to raise $15.6 million in additional capital to fund the production capacity for scale-up of the Trophon EPR, wider geographical coverage, acceleration of new product development and relocation to new corporate headquarters. At June 2010 the Company had in excess of $21 million in cash reserves with a growing pipeline of commercial sales.

Nanosonics is currently in discussions with a number of global corporations with a view to collaborating on one or more of the several new market opportunities available in the instrument re-processing and space decontamination markets. The strength of the Company's business case continues to be validated by both market demands and the attractive model of recurrent consumable sales as the installed base of devices grows. In parallel, in accordance with the global roll-out, Nanosonics is targeting its regulatory effort at the achievement of FDA approval followed by a focus on a number of key Asian markets, including Japan and Taiwan.

Nanosonics was pleased to welcome the appointment of Mr Richard England as a non-executive director in February 2010. Richard is a Chartered Accountant and a professional non-executive director and chairman, with over 30 years experience in accounting and financial services, as well as considerable experience with early-stage biotech companies. I would like to take this opportunity also to thank David Slack for his contribution as a director during FY2010.

Nanosonics continues to enjoy a strong and supportive base of shareholders covering both individual and institutional investors. The Company receives daily feedback on the outstanding achievements of its team, both in terms of the innovative nature of its technologies and its attainment of numerous regulatory milestones.

Your company has an outstanding opportunity to grow value for shareholders and team members in commercialising pioneering solutions that provide the highest standards of health, safety and environmental outcomes. I take this opportunity to thank my fellow board members for their significant contribution to the growth and governance of the Company and we look forward to Nanosonics continuing on its path to recognition as one of Australia's emerging global success stories.

Maurie Stang
Non-Executive Chairman
Sydney 18 August 2010

Trophon EPR is the first fully automated point of care solution for the disinfection of ultrasound transducers and represents our first response to this developing market requirement

Review of operations

FY 2010 has been a year of both significant preparation and momentum for Nanosonics.

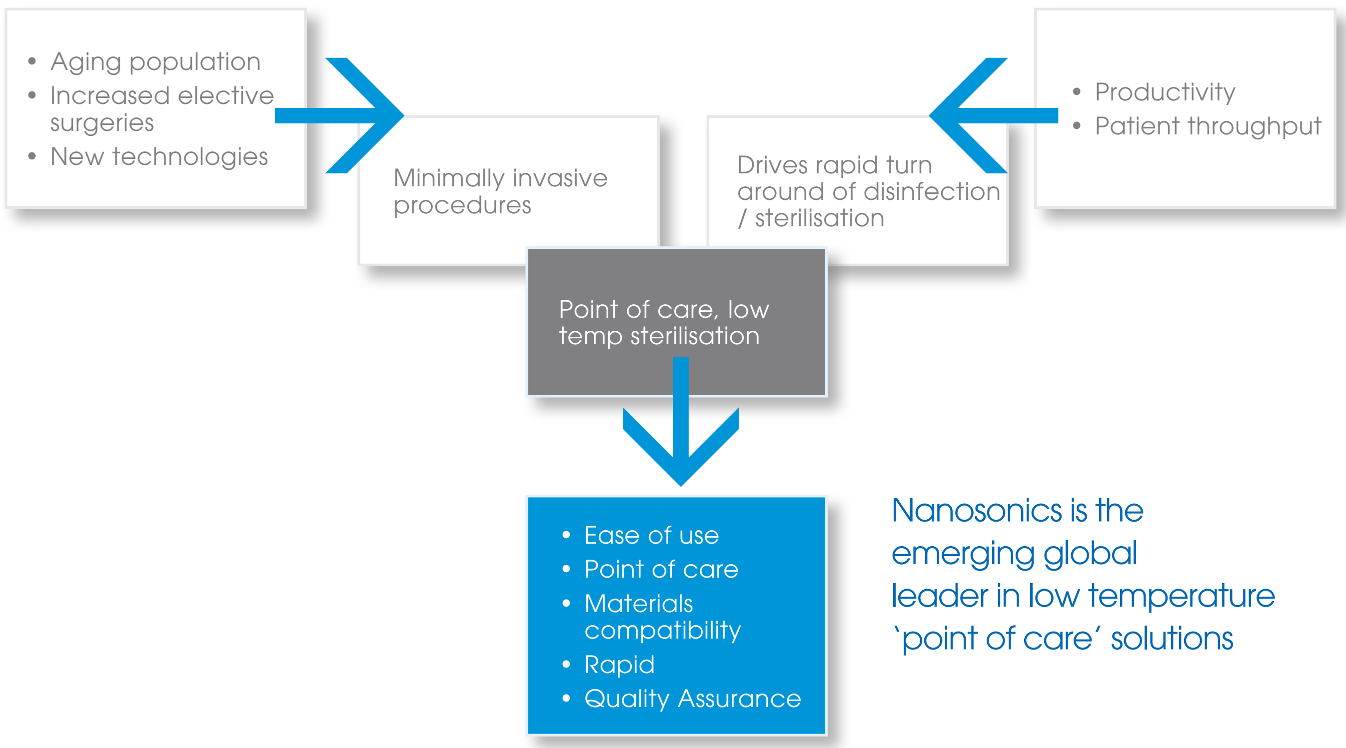
The year commenced with commercial release of product into France as part of the initial, controlled roll-out of the Trophon EPR. The purpose for controlling the roll-out was to work with local customers to identify areas for improvement, as well as to enable the development of robust internal support and quality systems. The launch countries of Australia, New Zealand and France contributed excellent feedback from a systems development perspective, particularly on product usability and user training, providing an opportunity to further enhance Nanosonics' product offering.

In the third quarter, the Company identified a component of a sub-assembly from a key supplier as not meeting the required quality standards. As a result, the Company took the proactive step of holding any further commercial release until such time as the problem had been addressed and an extensive in-field evaluation was conducted on the upgraded product. The issue did not relate to core technology but rather the performance of a component of a sub-assembly which was subsequently rectified. Commercial roll-out re-commenced in June 2010, with Nanosonics enjoying a substantial order pipeline, including the installation of Trophon units in a number of Australian imaging companies.

Healthcare revolution

Nanosonics unique and patented technology platform, based upon NanoNebulant™, is well positioned to take a leading role in the healthcare disinfection and sterilisation revolution. The Company's first product, the Trophon EPR for the high level disinfection of ultrasound transducers, is establishing new standards in the point of care disinfection market.

The healthcare revolution



Nanosonics is the emerging global leader in low temperature 'point of care' solutions

Global market opportunity

The total global market opportunity for the Trophon EPR is estimated to be in excess of A$1 billion. This supports a highly attractive business model based on a growing population of Trophon devices, each consuming on average 1,500 doses of NanoNebulant annually. Sales of NanoNebulant are driven by the overall number of ultrasound procedures which lead to disinfection of the probe after use. The total available market potential for ultrasound procedures as assessed by Frost & Sullivan in 2006 is approximately 500 million procedures per annum globally, growing at approximately 5% per annum. (Source: Frost & Sullivan *Market insights into the Global Ultrasound Market* September 2006).

Market experience in Australia, New Zealand and France has confirmed the ultrasound market's desire to move to a fully automated technology that provides superior operator safety and improved process workflows within the clinic. The main technology that the Trophon replaces in these markets is that of a "wet chemistry" approach to high level disinfection. The disadvantages of this approach include a lack of process standardisation, coupled with operator exposure to toxic chemicals, which may also be toxic to patients during ultrasound procedures. The success to date with the Trophon device has been driven by sonographers' desire to move away from an environment requiring the use of protective personal equipment that is both time consuming and lacking in quality control.

The Company has had significant market feedback indicating that its product's key features of low-temperature point of care disinfection are not available from any viable competitor in the global marketplace.

Go to market strategy

The Company is executing a multi-tier strategy in order to drive rapid market penetration. The process has begun with identification of local, country specific "best in class" distribution partners which are already active in the supply of equipment into ultrasound practices. Typically, in each country, there is one primary distribution partner with a performance based contract in place. Nanosonics has appointed distributors across all of the major European markets, in addition to Australia and New Zealand.

The Company is negotiating partnerships with leading global ultrasound manufacturers (OEMs) across the world to ensure there is ready access to the Trophon EPR technology at the time of new ultrasound system installations. In Australia there have been several tenders for ultrasound equipment where the inclusion of the Trophon EPR has specifically been a pre-condition of tender.

During FY2011, the Company plans to extend the launch of product into other European countries as it expands its European support base.

The largest global market for ultrasound is the USA, where the business opportunity is estimated to be in excess of A$500 million. The Company has received multiple enquiries in respect of gaining the distribution rights for the US market. Release of the Trophon EPR into the USA is predicated on receiving FDA 510(k) approval, the application for which remains on track with the Company's expectation that it will occur in 2011.

Quality assurance

Nanosonics is ISO13485 compliant and is routinely audited under the requirements of its licenses under the European CE Mark and the Australian Therapeutic Goods Administration.

Manufacturing of the Trophon EPR

Nanosonics continues to manufacture the Trophon EPR in Sydney, Australia. During FY2010, a potential site was identified that would bring significant additional manufacturing capacity to the Company. Negotiations are under way with this manufacturer, which operates an ISO quality accredited facility. This will enable the Company to meet estimated demand for product in the short to medium term.

The NanoNebulant is currently manufactured in Australia with a second manufacturer in Europe presently being established. The strategy to utilise two fillers provides both a natural currency hedge and mitigation of risk as well as helping to meet expected market demand globally.

New product introduction

Nanosonics remains committed to the introduction of further products that leverage the unique NanoNebulant technology. As a result of the capital raising in December 2009, the business has further invested in its R&D capabilities.

The Company remains in discussion with significant global companies for the joint development of several new products. In addition, Nanosonics continues to invest in the parallel development of new chemical technologies which would further expand the Company's scope and reach.

A committed team

I would like to take this opportunity to thank all Nanosonics' staff, contractors, advisors and consultants for their exceptional work during the year. The Company is now firmly on track to enjoy global revenues, with a number of additional markets expected to come on stream in FY2011. The Company continues to attract high calibre employees who see the significant opportunity for personal and Company growth.

The road map for FY2011 has the Company well positioned to accelerate sales of the Trophon EPR whilst at the same time its unique NanoNebulant platform technology provides numerous opportunities equal to or greater than those for the Trophon.

I am pleased to see that every dimension of the Company and its activities is maturing, providing almost unlimited scope for growth for our team, our shareholders and the myriad of global customers our technology is aimed to serve.

David Radford
Executive Director and CEO
Sydney
18 August 2010

Summary financial results

A comparative summary of the consolidated financial results for the year to 30 June 2010 is set out below.

	2010 A$'000	2009 A$'000	2008 A$'000
Revenue			
Operating revenue	763	309	-
Less Cost of sales	(284)	(121)	-
Gross profit	**479**	**188**	-
Other income			
Government grants received	161	150	1,112
Interest income	785	1,194	1,943
Expenses			
Operating expenses (excluding depreciation and amortisation)	(8,827)	(9,867)	(9,961)
EBITDA	**(8,187)**	**(9,529)**	**(8,849)**
Depreciation and amortisation	(771)	(419)	(241)
EBIT	**(8,958)**	**(9,948)**	**(9,090)**
Operating loss before tax	**(8,172)**	**(8,754)**	**(7,147)**
Basic EPS (Loss) (cents)	(3.9)	(4.5)	(3.7)
Cash assets			
Cash and cash equivalent assets on hand	**21,144**	**13,881**	**24,225**

Further details of the financial results are set out in the financial statements on pages 45 to 82 of this report.

Nanosonics advantage

Nanosonics' technology and its Trophon EPR product have many advantages compared to the highly-compromised conventional products for the disinfection of ultrasound equipment. With first-mover advantage, the Company has a strategy in place to enter world markets rapidly. To support this strategy the Company has several processes in place to ensure 'best practices' and to support growth and future product development.

Nanosonics' core advantages:

- The capability to leverage the Company's platform technology into customer driven product solutions
- An infrastructure to support global rollout of the Trophon EPR
- Proof of concept based on market acceptance and positive end user feedback of the Trophon EPR
- A market opportunity being expanded by healthcare and demographic trends
- No direct competitors for the Trophon EPR and the barriers to enter this market are high due to Nanosonics portfolio of intellectual property and markets' stringent regulatory requirements
- Leading OEMs and distributors worldwide endorsement of the Trophon EPR

The Company has made pioneering investments in the processes necessary to successfully commercialise the Trophon EPR worldwide and to initiate new product development initiatives.

Nanosonics values

Innovation

Nanosonics is committed to reduce the spread of infection by providing best in class products that set new global standards in ease of use, operator and patient safety, disinfection efficacy and environmental friendliness.

Customer driven solutions

Nanosonics' technologies can be integrated into automated devices, customised to suit individual market needs.

Integrity

Nanosonics acts with integrity and objectivity and to maintain ethical standards at all times.

Environment

Compared to other disinfection and sterilisation methods currently in use, the by-product of Nanosonics' platform technology are completely environmentally friendly.

Greener technologies

Nanosonics has set a new paradigm for its 'green' technologies where current offerings fundamentally fail. Compared to other disinfection and sterilisation methods currently in use. The only by-products of the Trophon EPR are minute quantities of water and oxygen.

With the market becoming increasingly aware of issues related to the use of toxic chemicals in clinical situations and the environment, with attendant OH&S challenges, the Company is witnessing a considerable move towards 'greener' product solutions such as Trophon EPR. This move confirms that the Company is well positioned to market the Trophon EPR globally and also to market any future products and collaborative projects.

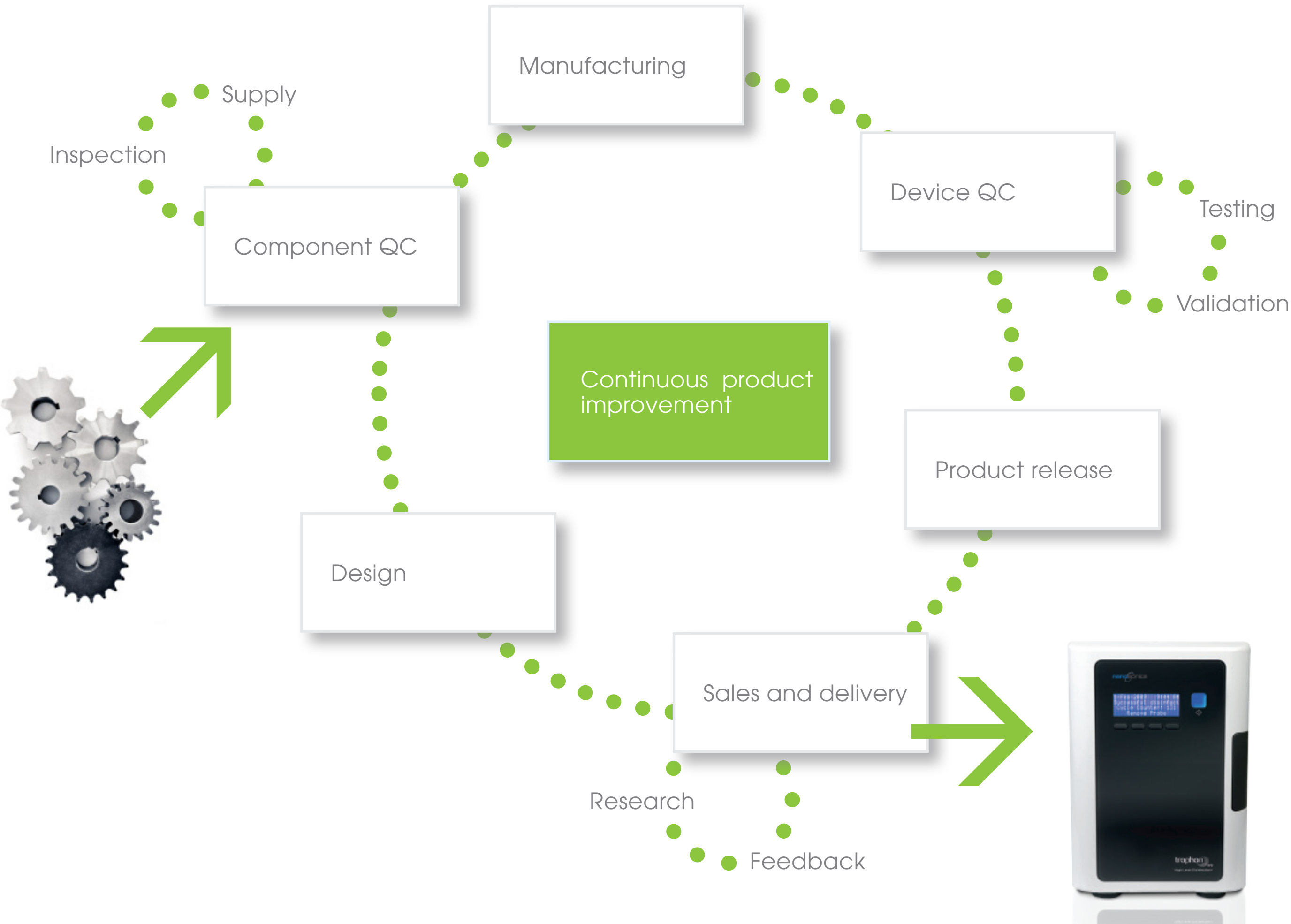
Outside of the Company's core technologies, Nanosonics also contributes to the environment in other ways such as the considered selection of materials, optimising operational efficiency and in the design and manufacturability of its products.

Protecting and ensuring the future

Quality assurance

The Company's quality management system (QMS) promotes continuous improvement in its products and processes so as to enhance quality and to drive efficiencies in all operations. Appropriate levels of understanding of the QMS and adherence to it are strict requirements of every person working for the Company.

The QMS encompasses all aspects of product design and development, materials procurement, manufacturing, release for sale and product traceability, in addition to management systems, training and internal audit. The system satisfies all requirements for ISO 13485:2003 accreditation for Trophon EPR and the processes for changes to its design. The QMS is subject to routine regulatory audit as part of the Company's compliance with its accreditations under the CE Mark for Europe and the Therapeutic Goods Administration in Australia.



Nanosonics scorecard for FY 2011

Innovation
Development of new products based on core technologies used in Trophon EPR

Operation
Further streamling operations processes to enhance production and maufacturing of the Trophon EPR

Environment
Introduction of environmental management policies to further reduce the Companies' environmental footprint

Governance
Enhance the Companys corporate governance practices

Intellectual property

The Company's platform technologies and market opportunity are strategically protected in a series of 13 patent families. During the year, the Company further added to its Intellectual property portfolio.

An overview of the Company's IP portfolio can be found on page 17 of this report.

Financial resources

Nanosonics has a strong balance sheet and its capital raisings have been well-supported. Cash reserves are currently projected to be more than sufficient for the Company to execute its established strategies for the launch of the Trophon EPR and the development of selected new products. The Board requires that the Company applies prudent and responsible financial and risk management. The Company is debt free and, through its extensive R&D programs, expects to benefit from further government grants.

Governance

A focussed Board leads Nanosonics in its ongoing growth and introduction of new products based on the Company's core technology. The Board, comprising a highly capable and diverse mix of skills and experience in healthcare and technology, is well supported by a qualified Company Secretary and an experienced senior leadership team. The Company complies with good governance principles and all appropriate governance requirements.

Details of the Board, Company Secretary and senior leadership team are provided on page 18 of this report.

The Board strongly supports good governance, as indicated by measures depicted below.

Skills

Innovation is a central part of Nanosonics' culture and all employees are encouraged to develop and pursue innovative ideas in line with the Company's business strategy. To support the Company with future growth and new product development initiatives, Nanosonics employs a diverse range of skill sets and experience, from university graduates through to individuals with highly specialised abilities and extensive career histories.

Nanosonics is well positioned to continuously meet its objectives and to retain corporate knowledge. A highly educated workforce, with 85% of employees having completed one or more university degrees, provides a wealth of expertise and novel ideas to the Company. On-going learning and development is also a key aspect of the Nanosonics advantage, with 44% of employees having attended external training courses to date.

Equal opportunity employer

Nanosonics is a progressive equal opportunity employer, with recruitment practices designed to attract and select the best skills for any role. The mix of gender across the organisation is currently 63% male and 37% female. Women comprise one third of the senior leadership team. Nanosonics put in place a paid parental leave scheme well before recent legislation was introduced nationally.

Career path opportunities, tertiary study assistance and the employee share based participation schemes all demonstrate commitment to the future development of personnel and the recognition of superior contribution to the achievement of Company objectives.

Governance	2010	2009	2008
% independent directors	40%	40%	50%
% director attendance at meetings	94%	91%	90%
% audit committee are non-executive directors	100%	100%	100%
Average years as director of Nanosonics	4.0	3.5	3.7

The Board intends to appoint one or more suitably qualified and experienced independent non-executive directors.

Intellectual property

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

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

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

The Company continuously develops its patent portfolio with 1 new patent application added in the year to 30 June 2010.

Patent Family	Description	Status (all regions)	Priority Date*
Improved Disinfection	Aerosol disinfection using liquid disinfectant combined with a surfactant	Granted or awaiting/ undergoing National examination[a]	23 June 1998
Quaternary Ammonium Compound Liquid Disinfectant	A method of high level disinfecting using a liquid incorporating greater than 1% w/w quaternary ammonium compound	Granted or awaiting/ undergoing National examination[a]	9 July 2004
Space Disinfection	A method for disinfecting a space using a concentrated aerosol or with controlled humidity	Granted or awaiting/ undergoing National examination[a]	4 August 2005
Improved Aerosol	An ultra fine mist to disinfect and sterilise, including the process of vapour removal and controlled humidity	Awaiting/undergoing National examination[a]	4 August 2005
Membrane Sterilization	Enclosing an article in a chamber featuring a semi-permeable membrane and introducing a biocide for sufficient time such to sterilize or disinfect the article	Awaiting/undergoing National examination[a]	4 August 2005
Membrane Concentrator	An aerosol and vapour biocide concentrator incorporating a semi-permeable membrane	Awaiting/undergoing National examination[a]	4 August 2005
Membrane Vapour Concentrator	A vapour biocide concentrator incorporating a semi-permeable membrane	Awaiting/undergoing National examination	2 February 2007
Sub-cycle Based Disinfection System	A method for fast disinfection and rapid removal of residual sterilant	PCT awaiting National entry	30 June 2008
Aerosol Sensor	A method and apparatus for the measurement of aerosol for the purposes of certifying sterilization	PCT awaiting National entry	30 June 2008
Safe Chemical Delivery System	A method and apparatus for the safe handling of chemical consumables	PCT awaiting National entry	30 June 2008
Nebulizer Manifold	A manifold for improving aerosol properties and flow in a chamber	PCT awaiting National entry	15 August 2008
Decontamination Aerosol	Self neutralising aerosols	PCT awaiting examination	22 May 2009
Disinfection Product and process	Self neutralising aerosols	PCT awaiting examination	22 May 2009
Calorimetric Sensor	Quick response calorimetric sensor for measuring sterilization parameters	PCT awaiting examination	10 September 2009
Design Family			
Bottle	Non-refillable bottle for safe delivery of consumables	Registered/awaiting National examination	1 June 2009

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

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. He was re-elected on 26 November 2007.

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 have resulted in the successful commercialisation of intellectual property across global markets.

Other current and former directorships in last 3 years

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

Related parties

Details of transactions in the financial year ended 30 June 2010 between the Group and entities which are considered to be director-related parties are set out in the Directors and key management personnel disclosures note to the financial report.

Maurie Stang

David Radford BSc (Hons), MBA, GAICD

Executive Director and Chief Executive Officer

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

Responsibilities

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

Skills, experience and expertise

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

Mr Radford is qualified with a BSc Honours degree in Applied Biological Sciences from Bristol Polytechnic

(UK), specialising in microbiology, and an Executive Master of Business Administration degree from the Australian Graduate School of Management.

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. He was re-elected on 18 November 2008.

Dr Fisher is Chairman 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 managing director of Brandon Capital Partners, a leading Australian venture capital provider. He has over two decades of extensive operating experience in the biotechnology and healthcare industry in Australia and overseas. Dr Fisher was CEO of Peptech Limited (now part of Cephalon Inc. (Nasdaq:CEPH)). During this period Peptech grew from a start up to having R&D operations in Australia, the UK, the US and manufacturing operations in Denmark.

Prior to Peptech Dr Fisher spent ten years with Pharmacia AB (now part of Pfizer, Inc), including five years at their head office in Sweden. Dr Fisher is qualified with a first class Honours degree in Rural Science, a Masters degree in Applied Finance and Investments and a PhD in Chemical Engineering from the University of Sydney.

Other current and former directorships in last 3 years

No ASX listed companies.

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 committee and he is a member of the Remuneration committee and the Governance and nomination committee.

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.

David Radford

David Fisher

Richard England

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; director of Healthscope Limited (ASX:HSP) since October 1996; director of Choiseul Investments Limited (ASX:CHO) since July 2004 and director of Macquarie Atlas Roads Limited (ASX:MQA) since June 2010.

Former: Director of ITL Limited from 2003 to October 2007 and director of St. George Bank Limited from September 2004 to December 2008.

Ron Weinberger BSc (Hons), PhD

Executive Director and General Manager Innovations and Technologies

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

Responsibilities

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

Skills, experience and expertise

Dr Weinberger has been with the Company since August 2004. He has over two decades of experience in the medical research and biotechnology arena. He is an Intellectual property expert and entrepreneur in the development of novel technologies.

Dr Weinberger is co-inventor of several of Nanosonics' key technology patents which underpin the Company's platform technology. He has proven experience in negotiating, developing, designing and managing large scale R&D programs with a strong commercial perspective.

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

Other current and former directorships in last 3 years

No ASX listed companies

Chris Grundy BCom, FCA, FCIS, GAICD

Chief Financial Officer and Company Secretary

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

Mr Grundy has resigned with effect from 1 October 2010.

Ron Weinberger

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

Skills, experience and expertise

Mr Grundy has over 15 years experience in medical devices, pharmaceuticals and complementary medicines, with Bayer and other large Australian companies, including CFO and Company Secretary of an ASX top-200 company. He has held lead roles in general management, finance, operations and sales and marketing in Australia, Britain and Southern Africa, and in professional services with Ernst & Young in Southern Africa.

Mr Grundy is qualified as a Chartered Accountant and as a Chartered Secretary, and holds a B.Com degree and a Graduate Diploma in Applied Corporate Governance. He has 9 years experience as a Company Secretary.

Arjang Safa BTech

General Manager Manufacturing and Supply Chain

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

Skills, experience and expertise

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

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

Jianhe Chen MD, MSc

Quality Assurance Manager

Dr Chen has been with the Company since July 2009 and is responsible for Quality Assurance, including maintaining quality systems and regulatory certifications.

Skills, experience and expertise

Dr Chen has 8 years experience in quality assurance and regulatory affairs in globalised medical device companies, in addition to broad skills and knowledge obtained in clinical practice and medical research. Dr Chen specialised in establishing, developing and maintaining the quality management systems for medical device manufacturers. Dr Chen has held senior leadership roles in various international medical device companies in the past ten years.

Jianhe Chen

Chris Grundy

Arjang Safa

Directors' report

The Directors present their report on the consolidated entity (referred to hereafter as the Group), consisting of Nanosonics Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

This report includes the Review of operations on pages 10 to 12, the Information on directors and secretary on pages 18 to 21 and the Remuneration report on pages 35 to 43.

Principal activities

During the year the continuing principal activities of the Group consisted of research, development and commercialisation of infection control and decontamination products and related technologies. Since March 2009, the Company has manufactured and distributed the Trophon® EPR ultrasound probe disinfector and distributed its associated consumables. 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 $763,000 (2009: $309,000) and other income amounted to $946,000 (2009: $1,344,000). The net operating loss before and after income tax amounted to $8,172,000 (2009: $8,754,000). The Group incurred net cash outflows for the financial year of $8,601,000 (2009: $10,347,000) excluding net proceeds from the issue of shares, which were applied to on-going business development and operations. Cash reserves at 30 June 2010 amounted to $21,144,000 (2009: $13,881,000). Other information on the operations of the Group and its business strategies and prospects is discussed in the Review of operations on pages 10 to 12 of this report.

Significant changes in the state of affairs

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

During the year the Company issued a total of 28.4 million new ordinary shares to raise an additional $15.6 million in capital. Further details are provided below, under Shares issued.

Dividends – Nanosonics Limited

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2010. No dividends were proposed, declared or paid during the financial year (2009: Nil).

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

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

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

Likely developments and expected results of operations

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

Comments on expected results of the operations of the Group are included in the Review of operations on pages 10 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.

Environmental regulation

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

Information on directors

The information on the Directors and Secretary is a part of the Directors' report. Information on the Company Directors, Company Secretary and Key management personnel can be found on pages 18 to 21 of this Annual Report.

Directors and committees of the board

During the year and to the date of this report, the board and committees of the board of Nanosonics Limited comprised the following members as per the table below:

Directors and committees of the board

Board of directors Nanosonics Limited	
Maurie Stang, Non-Executive Chairman	Richard England, Non-Executive Director (appointed 5 Feb 2010)
David Radford, Executive Director, CEO	Ron Weinberger, Executive Director
David Fisher, Non-Executive Director	David Slack, Non-Executive Director (resigned 22 Jan 2010)
Audit and financial risk management committee	
Richard England, Chairman (appointed 5 Feb 2010)	Maurie Stang
David Fisher (Chairman until 5 Feb 2010)	David Slack (resigned 22 Jan 2010)
Governance and nomination committee	
David Fisher, Chairman	Richard England (appointed 5 Feb 2010)
Maurie Stang	David Slack (resigned 22 Jan 2010)
Remuneration committee	Maurie Stang
David Fisher, Chairman	Richard England (appointed 5 Feb 2010)

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

(a) Directors

In accordance with the Constitution, both Mr David Radford and Dr Ron Weinberger retire as directors at the next annual general meeting and, being eligible, offer themselves for re-election.

Mr Richard England was appointed a director on 5 February 2010 and continues in office at the date of this report. 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 David Slack was a director from the beginning of the financial year until his resignation on 22 January 2010.

(b) Secretary

Mr Chris Grundy continued as company secretary throughout the financial year and to the date of this report. Mr Grundy has resigned with effect from 1 October 2010.

Meetings of directors

The number of directors' meetings, (including meetings of the committees), held during the year ended 30 June 2010, and numbers of meetings attended by each of the directors were as follows:

	Full meetings of Directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Maurie Stang	12	12	2	2	1	1	3	3
David Radford	12	12						
Richard England[1]	5	5	1	1	1	1	2	2
David Fisher	12	10	2	2	1	1	3	3
Ron Weinberger	12	12						
David Slack[2]	7	4	1	1				

[1]Richard England was appointed 5 February 2010
[2]David Slack resigned 22 January 2010
A =Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended during the time the director held office or was a member of the committee during the year

Loans to directors and executives

During the financial year and to the date of this report, the Group made no loans to directors and other key management personnel and none were outstanding at the year end on 30 June 2010 (2009: Nil).

Shares issued

During the year ended 30 June 2010 and to the date of this report the Company issued a total of 29,470,085 (2009: 1,199,324) new ordinary shares in Nanosonics Limited as detailed below. No amount was unpaid on any of the shares so issued.

Shares Issued	Number of shares issued
Shares issued under Share Placement	21,818,182
Shares issued under Share Purchase Plan (SPP)	6,558,503
Share Options exercised under Share Option Plans	1,093,400
Total new shares issued	**29,470,085**

In terms of Listing Rule 7.1, the total of 28.4 million new shares issued under the Share Placement and the Share Purchase Plan represented an additional 14.4% of the Company's shares previously on issue.

As at 30 June 2010 and at the date of this report there were 225,753,032 (2009: 196,282,947) ordinary shares in Nanosonics Limited on issue. Further information on issued shares is provided in the Contributed equity and the Share-based compensation notes to the financial statements.

Share options granted

During the financial year the Company granted, for no consideration, 50,000 (2009: 2,630,000) unquoted options over unissued ordinary shares in Nanosonics Limited. Between the financial year end and the date of this report, the Company granted, for no consideration, 1,400,000 unquoted options over unissued ordinary shares in Nanosonics Limited. Further information on the grants is provided below, in the Remuneration report on page 42 and in the Share-based compensation note to the financial statements.

Share options granted	Number of options granted
Employee Share Option Plan (ESOP)	1,400,000
General Share Option Plan (GSOP)	50,000
Total share options granted during the year and to the date of this report	**1,450,000**

Shares under option

At the date of this report, there were 7,663,000 (2009: 7,548,500) unissued ordinary shares of Nanosonics Limited under option as detailed below. Further information on the options is provided in the Share-based compensation note to the financial statements.

Share option plan	Number of shares under option
Employee Share Option Plan (ESOP)	5,953,000
General Share Option Plan (GSOP)	1,710,000
Total shares under option at the date of this report	**7,663,000**

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	28,424,124	-
David Radford	125,207	1,700,000
Richard England	25,000	50,000
David Fisher	953,940	-
Ron Weinberger	114,083	1,375,000

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums of $35,168 (2009: $35,418) to insure the directors and secretary and key management personnel of the Company and its controlled entities.

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

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

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Audit and non-audit services

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

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, 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 44 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 10 to 12), the Information on directors and secretary (on pages 18 to 21) and the Remuneration report (on pages 35 to 43) is made and signed in accordance with a resolution of directors.

Richard X England

Richard England
Director
Sydney
18 August 2010

Corporate governance statement

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

This statement sets out Nanosonics Limited's Corporate Governance framework. Nanosonics 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 (2nd Edition, 2007) issued by the Australian Securities Exchange, as well as other prominent guidance on good governance.

The Group has followed the ASX Corporate Governance Principles and Recommendations, with certain exceptions as noted below.

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

This Corporate governance statement was approved by the Board and a copy is available on the Company's website.

Management and oversight

Role of the Chairman

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

Role of the Board

Under the leadership of the Chairman, the role of the Board is to provide strategic guidance to the Company and to provide effective oversight of its management for the benefit of all stakeholders.

The Board acts on behalf of shareholders and is accountable to the shareholders for the overall strategy, governance and performance of the Company. The Board retains ultimate authority over the management of the Group; however day-to-day management of the Group's affairs and the implementation of its strategies are formally delegated by the Board to the Chief Executive Officer (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 secretary and senior management and in the Remuneration report in the Company's annual report.

Committees of the Board

The Board is assisted by committees which are responsible for aspects of the operation of the Group and which act by examining relevant matters and making recommendations to the Board. The Board may establish additional committees to assist it in carrying out its responsibilities. The Board may also delegate specified responsibilities to ad-hoc committees. The directors must be satisfied that the members of a committee are competent and will exercise their delegated functions in accordance with directors' duties. General requirements of Board committees are:

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

Currently there are three Committees of the Board: the Governance and nomination committee, the Audit and financial risk management committee and the Remuneration committee. Summaries of the roles and responsibilities of each of the current committees are provided in this Corporate governance statement. Details of directors' attendances at meetings of the committees are shown in the Directors report contained in the Company's annual report.

Advisory Board

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

Structure of the board

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

- Mr Maurie Stang is non-executive Chairman: appointed a director 14 November 2000, re-elected 4 November 2009
- Mr David Radford is the Chief Executive Officer: appointed 16 June 2008, re-elected 18 November 2008
- Dr David Fisher is an independent non-executive director: appointed 30 July 2001, re-elected 18 November 2008
- Mr Richard England is an independent non-executive director: appointed 5 February 2010
- Dr Ron Weinberger is an executive director: appointed 2 July 2008, re-elected 18 November 2008

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

Directors' independence

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

- Mr Stang is not considered to be an independent director 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.)

- Mr Radford and Dr Weinberger are not considered to be independent directors as they are executives of the Company.
- Dr Fisher is considered to be an independent director, except that he served as interim executive director for the period 14 December 2007 to 16 June 2008.
- Mr England is considered to be an independent director.

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

Governance and nomination committee

The three members of the Governance and nomination committee are: Dr David Fisher (Chairman), Mr Richard England 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.

The Governance and nomination committee charter is available on the Company's website.

Selection and appointment of directors

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

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

After assessment, candidates are recommended by the Committee to the Board.

Induction, education and access of directors

Every new director receives an appointment letter accompanied by;

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

Directors and the Board have the right, in connection with their duties and responsibilities, to obtain independent professional advice at the Company's expense. Subject to prior approval from within the Board, which will not reasonably be withheld, a director may have direct access to any employee or contractor of the Group and seek any information from any employee in order to perform his or her responsibilities.

Board performance evaluation

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

- **Board and Directors**
  The Board continuously reviews its own performance and mix of skills to ensure that they allow the Board to maximise its effectiveness and contribution to the Company.
- **Committees**
  The performance of each of the Board's Committees is assessed annually by the Chairman of the Committee and by the Chairman of the Board to ensure that the Committees and the Board as a whole work effectively. The Board receives the meeting minutes and an update from the Chairman of each of the Board's Committees on an ongoing basis, setting out the Committee's achievements based on their duties. The Board reviews and approves the charters of each of the Committees annually.

Executive performance evaluation

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

Ethical and responsible decision making

Code of conduct and 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 and ethics can be found on the Company's website.

Securities trading policy

The Company has a Securities trading policy, which applies to all Designated persons, comprising its directors, officers, employees, 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. The Securities trading policy can be found on the Company's website.

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. A copy of the Company's Whistleblower policy can be found on the Company's website under Corporate governance.

Directors' interests and related party transactions

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

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

Integrity in financial reporting

Financial systems and compliance

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

Audit and financial risk management committee

The three members of the Audit and financial risk management committee are: Mr Richard England FCA, MAICD (Chairman), Dr David Fisher BRurSc (Hons), MAppFin, PhD, FFin 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 charter of the Audit and financial risk management committee is available on the Company's website.

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;
- 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 5 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 p olicy 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.

A copy of the Continuous disclosure and shareholder communications policy is available on the Company's website.

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 at its general meetings. 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.

A copy of the continuous disclosure and shareholder communications policy is available on the Company's website.

Website and corporate information

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

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

- Announcements to the ASX
- Constitution
- Corporate governance charter
- Advisory Board
- Audit and financial risk management committee charter
- Code of ethics
- Governance and nomination committee charter
- Securities trading policy
- Remuneration committee charter
- Whistleblower Policy
- Terms of appointment of non-executive director
- Information disclosure policy
- Profiles of directors and senior management
- Risk management policy
- Notices of annual general meetings

- Privacy Policy
- Annual Reports
- Half-year reports

Engagement with shareholders

Shareholders and prospective shareholders are welcome, by prior appointment, to speak with executive managers responsible for investor relations and to view the Group's operations.

Risk management

The Company has a Risk Management Policy for the oversight and management of material business risks, which reflects the Group's risk profile and which describes the risk management processes applied. The Board is responsible for risk oversight and risk management and to ensure legal and regulatory compliance.

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

In the period under review in 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.

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: Dr David Fisher (Chairman), Mr Maurie Stang and Mr Richard England. The Committee is chaired by an independent director and has a majority of independent directors.

The role of the Remuneration committee, as set out in detail in its charter, is to provide advice and assistance to the Board in fulfilling its responsibilities in respect of remuneration policies, performance enhancement systems and fair and responsible rewards for individual performance. The Committee is responsible for advising the Board on remuneration issues and policies in the context of the Group's operations and markets and, with regard to the overriding goal that directors and senior executives are recruited, motivated and retained so as to pursue the long-term growth and success of the Group, for ensuring a clear relationship between individual performance and remuneration structures, both short and long term.

The Remuneration committee is authorised to seek the information and advice it needs, at the cost of the Company, to assist it in the performance of its obligations. Advisers to the Remuneration committee are appointed by the Committee itself and report directly to the Committee.

The Company distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Non-executive directors' remuneration does not include any retirement benefits other than contributions to their nominated superannuation funds. The Company will not permit an executive director to have direct involvement in the determination of their own remuneration.

Details of the respective remuneration structures are set out in Part 1 the Remuneration report in 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 remuneration of directors and Key management personnel (KMP), are set out below. For the purposes of this report KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company, directly or indirectly and include the five executives receiving the highest remuneration.

a) Overview of remuneration policies

Remuneration philosophy

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

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

Remuneration committee

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

The Remuneration committee presently comprises three non-executive directors, Dr David Fisher (Chairman), Mr Richard England 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 annual remuneration that may be paid to all non-executive directors and which may be divided among the non-executive directors in such a way as the directors may determine is a maximum of $500,000 as approved at a general meeting of the Company on 19 September 2006. Non-executive directors do not receive any performance-related remuneration, options or shares.

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

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

c) Advisory board

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

d) Executives

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

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

Details of Key management personnel remuneration are set out in Part 5 of this report.

Fixed remuneration

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

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

e) Short term incentive (STI) scheme

The Company has a short term incentive scheme whereby senior executives and staff can earn bonuses, comprising a mix of cash and share-based payments, of up to 25% of their base pay, subject to the achievement of defined key performance indicators and overall company performance objectives.

f) Share-based compensation plans

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

As a result of changes to enabling legislation affecting current share-based compensation plans, the Company intends to seek members' approval for new plans which will better serve its remuneration objectives. Wherever practicable, the Company will include share-based compensation in its remuneration strategies.

2. Service agreements

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

3. Share-based compensation

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

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

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

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

Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue. At the date of this report, the maximum number of ESOP options on issue in the current five-year period was 7,230,000, comprising 3.7% of total shares on issue.

Under the ESOP, participants are granted options for no consideration which vest in three equivalent tranches on each of the first three anniversaries of the date of issue. The options expire on the fourth such anniversary. The exercise price of options is determined by the Board at the time of issue. Options vest and become exercisable at the end of each vesting period. The ESOP requires the holder to be an employee of the Company at the time vested options are exercised, except that they may be exercised up to 30 days after voluntary termination of employment. When exercisable, each option is convertible into one ordinary share which ranks equally with any other share on issue in respect of dividends and voting rights.

No ESOP options were granted in the year under review (2009:2,410,000 options were granted). Between the financial year end and the date of this report, 1,400,000 ESOP options have been granted – refer notes 7 and 8 below.

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

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

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

Nanosonics Exempt Employee Share Plan ("EESP")

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

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

Nanosonics Deferred Employee Share Plan ("DESP")

The DESP allows invited eligible employees, including directors, to receive Nanosonics shares as a bonus or incentive or as remuneration sacrifice and, subject to certain conditions, not to pay tax for up to 7 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 (2009:587,824 shares were granted).

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 is this report held office throughout the years ended 30 June 2010 and 30 June 2009, except for:

Directors

David Slack – Non-executive director (appointed 5 February 2009, resigned 22 January 2010)

Richard England – Non-executive director (appointed 5 February 2010)

Key management personnel

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

5. Remuneration of directors and key management personnel

Details of the nature and amount of each major element of the remuneration of each director of the Company, key management personnel and each of the five highest remunerated Company executives are set out in the following table. 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

		Primary (a)		Post-employment	Total short-term remuneration	Equity compensation	Total Remuneration	Proportion of remuneration performance related %	Value of shares and options as proportion of remuneration %	Short term incentive bonus	
		Salary and fees	STI cash bonus (b)	Superannuation benefits		Value of shares and options vested				Vested in year %	Forfeited in year % (c)
Non-Executive Directors											
Maurie Stang	2010	50,007		-	50,007		50,007				
	2009	50,007		-	50,007		50,007				
Richard England[1]	2010	18,333		-	18,333		18,333				
	2009	-		-	-		-				
David Fisher	2010	33,028		2,972	36,000		36,000				
	2009	36,386		3,274	39,660		39,660				
David Slack[2]	2010	20,342		2,972	23,296		23,296				
	2009	12,702		1,143	13,845		13,845				
Executive Directors											
David Radford	2010	226,255	48,000	18,623	292,878	59,234	352,112	25.0%	20.2%	80%	20%
	2009	232,375	48,153	16,574	297,102	14,092	311,194	25.0%	4.5%	100%	0%
Ron Weinberger	2010	164,718	45,143	14,461	224,322	77,345	301,667	22.5%	34.5%	80%	20%
	2009	155,963	28,687	16,393	201,043	93,838	294,881	22.5%	46.7%	100%	0%
Key management personnel											
Jianhe Chen[3]	2010	103,569	11,072	10,318	124,959	-	124,959	22.5%[3]	-	80%	20%
	2009	-	-	-	-	-	-				
Chris Grundy	2010	160,716	31,157	14,461	206,334	30,867	237,201	22.5%	15.0%	80%	20%
	2009	161,827	27,387	13,745	202,959	33,573	236,532	22.5%	16.5%	100%	0%
Kirste Jarvis[4]	2010	121,717	9,810	6,688	143,229	6,532	149,761	7.5%	4.6%	100%	0%
	2009	74,308	6,256	11,702	87,252	2,941	90,193	7.5%	3.4%	100%	0%
Arjang Safa	2010	160,672	48,336	14,461	223,469	34,395	257,864	22.5%	15.4%	80%	20%
	2009	159,228	26,149	14,315	199,692	20,090	219,782	22.5%	9.1%	100%	0%

(a) There were no non-monetary benefits and no termination benefits included in remuneration in the financial years 2010 and 2009. Payment periods do not coincide precisely with the financial year. (b) Amounts included in remuneration under the Short Term Incentive (STI) Scheme comprise amounts that vested in the financial year based on achievement of personal goals and specified performance criteria set out in Part 1. Certain amounts may vest in future financial years in respect of the STI scheme for the current financial year. (c) Amounts forfeited in the financial year relate to personal key performance indicators that were not achieved in the year. [1] Richard England was appointed on 5 February 2010. [2] David Slack was appointed on 5 February 2009 and resigned on 22 January 2010. [3] Jianhe Chen was appointed on 20 July 2009. Her STI plan took effect on 1 January 2010. [4] Kirste Jarvis was appointed Human Resources Manager on 3 November 2008. Her details are included as she was one of the five highest remunerated Company executives.

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.

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 2010:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Value of option
GSOP	5 January 2010	5 January 2014	$0.620	$0.55	71.04%	5.29%	$0.3015
ESOP	26 June 2009	26 Jun 2013	$0.410	$0.345	59.06%	5.32%	$0.226
ESOP	17 June 2009	17 Jun 2013	$0.410	$0.30	58.75%	5.01%	$0.299
GSOP	19 Nov 2008	19 Nov 2012	$0.190	$0.30	51.58%	4.24%	$0.0588
ESOP	19 Nov 2008	19 Nov 2012	$0.190	$0.30	51.58%	4.24%	$0.0588
ESOP	30 Nov 2007	30 Nov 2011	$0.715	$0.75	46.02%	6.27%	$0.301
ESOP	17 July 2007	17 July 2011	$0.690	$0.75	45.73%	6.40%	$0.280
ESOP	17 April 2007	17 April 2011	$0.375[5]	$0.75	45.73%	6.17%	$0.155
ESOP	17 April 2007	17 April 2011	$0.375[5]	$0.20	45.73%	6.17%	$0.355

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

7. Share-based compensation granted as remuneration

Shares granted

Shares granted as long-term incentive remuneration under the Company's Deferred Employee Share Plan (DESP) to each director, each of the key management personnel and each of the five highest remunerated Company executives are detailed below.

	Share plan, issue price	Number granted	Date granted	Number vested	Number forfeited	Number vesting in future financial years		
						2011	2012	2013
Directors								
David Radford	DESP@$0.425	5,880	June 2009	5,880	-		-	-
	DESP@$0.288	23,237	Mar 2009	23,237	-	-	-	-
Ron Weinberger	DESP@$0.425	75,000[6]	June 2009	25,000	-	25,000	25,000	-
	DESP@$0.288	33,203	Mar 2009	33,203	-	-	-	-
Key management personnel								
Chris Grundy	DESP@$0.425	5,880	June 2009	5,880	-	-	-	-
	DESP@$0.288	26,875	Mar 2009	26,875	-	-	-	-
Arjang Safa	DESP@$0.425	5,880	June 2009	5,880	-	-	-	-
	DESP@$0.288	33,203	Mar 2009	33,203	-	-	-	-
Kirste Jarvis	DESP@$0.425	5,880	June 2009	5,880	-	-	-	-

Options granted

The vesting profiles as at 30 June 2010 of options granted under the Company's Employee Share Option Plan (ESOP) and General Share Option Plan (GSOP) as long-term incentive remuneration to each director, each of the key management personnel and each of the five highest remunerated Company executives are detailed below.

	Option Plan, exercise price	Number granted	Date granted	Number vested	Number exercised	Number forfeited	Number vesting in future financial years[7]		
							2011	2012	2013
Directors									
Richard England	GSOP@$0.55	50,000	January 2010	-	-	-	16,500	16,500	17,000
David Radford	ESOP@$0.30	500,000	June 2009	165,000	-	-	165,000	170,000	-
	ESOP@$0.30	500,000	Nov 2008	330,000	-	-	170,000	-	-
Ron Weinberger	ESOP@$0.75	175,000	April 2007	175,000	-	-	-	-	-
	ESOP@$0.20	1,000,000	April 2007	1,000,000	-	-	-	-	-
Key management personnel									
Chris Grundy	ESOP@$0.345	100,000	June 2009	33,000	-	-	33,000	34,000	-
	ESOP@$0.75	250,000	July 2007	165,000	-	-	85,000	-	-
Arjang Safa	ESOP@$0.345	350,000	June 2009	115,500	-	-	115,500	119,000	-
	ESOP@$0.75	80,000	Nov 2007	52,800	-	-	27,200	-	-
Kirste Jarvis	ESOP@$0.345	75,000	June 2009	25,000	-	-	25,000	25,000	-
	ESOP@$0.30	45,000	Nov 2008	15,000	-	-	15,000	15,000	-

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

[7] 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.

On 13 August 2010, 1,400,000 options were granted under the ESOP at no cost and with an exercise price equivalent to the volume weighted average last sale price as published by the ASX for the 5 days preceding the date of eligibility. The options vest in three tranches of 33%, 33% and 34% respectively on the first three anniversaries of the date of eligibility. The options expire if not exercised by the fourth such anniversary. The options were valued according to Company policy.

Recipient	Number of options granted	Date of eligibility	Exercise price	Value of options granted	Shareholder approval granted for director
David Radford	500,000	16 June 2010	$0.535	$159,050	16 November 2008
David Radford	200,000	19 July 2010	$0.556	$62,900	4 November 2009
Ron Weinberger	200,000	19 July 2010	$0.556	$62,900	4 November 2009
Jianhe Chen	200,000	19 July 2010	$0.556	$62,900	
Kirste Jarvis	100,000	19 July 2010	$0.556	$31,450	
Arjang Safa	200,000	19 July 2010	$0.556	$62,900	
Total	**1,400,000**			**$442,100**	

Vesting of all options with date of eligibility of 19 July 2010 is subject to achievement of pre-determined performance criteria.

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[8] $
Directors			
David Radford	2010	-	-
	2009	9,192	-
Ron Weinberger	2010	-	-
	2009	41,445	-
Key management personnel			
Chris Grundy	2010	-	-
	2009	10,240	-
Arjang Safa	2010	-	-
	2009	12,062	-
Kirste Jarvis	2010	-	-
	2009	2,500	-

[8] In terms of the rules of the DESP and ESOP, shares and options will vest only if the holder is an employee of the Group on the vesting date.

Options

Details of the movement during the reporting period, by value, of options granted as long-term incentive remuneration to each director of the Company, each of the other key management personnel and each of the five highest remunerated Company executives named are detailed below.

		Value of options		
		Granted in year (a) $	Exercised in year $	Forfeited in year[9] $
Directors				
Richard England	2010	15,075	-	-
	2009	-	-	-
David Radford	2010	-	-	-
	2009	179,916	-	-
Ron Weinberger	2010	-	-	-
	2009	-	-	-
David Slack	2010	-	-	-
	2009	4,380	-	-
Key management personnel				
Chris Grundy	2010	-	-	-
	2009	22,300	-	-
Arjang Safa	2010	-	-	-
	2009	78,049	-	-
Kirste Jarvis	2010	-	-	-
	2009	19,605	-	-

[9] 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.

Details of the value of options granted to directors and Key management personnel between the financial year end and the date of this report are provided in section 7 above.

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 2010 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.

M Nicholaeff

UHY Haines Norton

M.Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
18 August 2010

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Statement of comprehensive income

For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Continuing operations			
Sale of goods		763	309
Cost of sales		(284)	(121)
Gross profit		**479**	**188**
Other income			
Government grants		161	150
Interest income		785	1,194
Total other income	**7**	**946**	**1,344**
Operating expenses			
Staffing costs		4,929	5,098
Intellectual property		264	210
Quality & regulatory management		201	159
Business development		517	630
Premises, plant & equipment		1,442	1,035
External consultants & advisors		1,630	1,885
Other operating costs		614	1,269
Total operating expenses		**9,597**	**10,286**
Loss from continuing operations before income tax		**(8,172)**	**(8,754)**
Income tax expense	**9**	–	–
Loss from continuing operations after income tax		**(8,172)**	**(8,754)**
Other comprehensive income			
Foreign currency translation reserve		5	2
Income tax on items of other comprehensive income		–	–
Total comprehensive income (loss) for the period		**(8,167)**	**(8,752)**

Loss per share for losses attributable to ordinary shareholders of the company:		Cents	Cents
Loss per share	**31**	(3.9)	(4.5)
Diluted loss per share	**31**	(3.7)	(4.3)

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

Statement of financial position

For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	10	21,144	13,881
Trade and other receivables	11	461	468
Inventories	12	1,571	919
Other current assets	13	189	169
Total current assets		**23,365**	**15,437**
Non-current assets			
Property, plant and equipment	15	1,313	1,856
Intangible assets	16	157	198
Other non-current assets	17	113	91
Total non-current assets		**1,583**	**2,145**
Total assets		**24,948**	**17,582**
Current liabilities			
Trade and other payables	18	1,004	933
Provisions	19	362	337
Total current liabilities		**1,366**	**1,270**
Non-current liabilities			
Total non-current liabilities		–	–
Total liabilities		**1,366**	**1,270**
Net assets		**23,582**	**16,312**
Equity			
Contributed equity	20	56,627	41,425
Reserves		856	805
Accumulated loss		(33,901)	(25,918)
Total equity		**23,582**	**16,312**

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

Statement of changes in equity

For the year ended 30 June 2010

	Contributed Equity	Share based payments reserve	Foreign currency translation reserve	Accumulated Loss	Total equity
	Note 20 $'000	Note 21 $'000	$'000	$'000	$'000
At 30 June 2008	**41,150**	**733**	**1**	**(17,325)**	**24,559**
Total comprehensive loss for the 2009 year				(8,754)	**(8,754)**
Shares issued	140	32			**172**
Share issue cost	13				**13**
Share options expensed		198			**198**
Share options exercised	122	(71)		71	**122**
Share options lapsed		(90)		90	**–**
Other reserves			2		**2**
At 30 June 2009	**41,425**	**802**	**3**	**(25,918)**	**16,312**
Total comprehensive loss for the 2010 year				(8,172)	**(8,172)**
Shares issued	15,639	(32)			**15,607**
Share issue cost	(657)				**(657)**
Share options expensed		267			**267**
Share options exercised	220	(150)		150	**220**
Share options lapsed		(39)		39	**–**
Other reserves			5		**5**
At 30 June 2010	**56,627**	**848**	**8**	**(33,901)**	**23,582**

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

Statement of cash flows

For the year ended 30 June 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		748	75
Receipts from government grants		161	150
Payments to suppliers and employees (inclusive of GST)		(9,302)	(10,994)
Interest received		631	1,633
Net cash provided by (used in) operating activities	**30**	**(7,762)**	**(9,136)**
Cash flows from investing activities			
Purchase of assets		(182)	(1,195)
Purchase of intangibles		–	(201)
Net cash provided by (used in) investing activities		**(182)**	**(1,396)**
Cash flows from financing activities			
Proceeds from issue of shares and options		15,859	122
Capital raising costs recovered		–	12
Proceeds from loans repaid		–	51
Transaction costs on issue of shares		(657)	–
Net cash provided by (used in) financing activities		**15,202**	**185**
Net increase (decrease) in cash and cash equivalents		**7,258**	**(10,347)**
Cash at the beginning of the financial year		13,881	24,225
Effects of exchange rate changes on cash and cash equivalents		5	3
Cash and cash equivalents at the end of year	**10**	**21,144**	**13,881**

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

Contents of the notes to the financial statements

For the year ended 30 June 2010

Notes to the financial statements

For the year ended 30 June 2010

1. Parent entity disclosures

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

2. Corporate information

The financial report on pages 45 to 82 covers Nanosonics Limited as a consolidated entity consisting of Nanosonics Limited (the Company) and its subsidiaries (jointly the Group). The financial report is presented in the Australian currency.

Nanosonics Limited is a publicly listed company, limited by shares, incorporated and domiciled in Australia and listed on the Australian Securities Exchange (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 10 to 12 and in the Directors' Report on page 22, both of which are not part of this financial report.

The financial report was authorised for issue by the Directors on 18 August 2010. The Company has the power to amend and reissue the financial report.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Compliance with IFRS

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

Historical cost convention

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

Financial statement presentation

(i) The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 July 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity are now presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(ii) The Group has applied AASB 8 'Operating Segments', which replaced AASB 114 'Segment Reporting' from 1 July 2009. AASB 8 requires a management approach to segment reporting based on the information reported internally which became effective 1 July 2009. Refer to Operating Segments note 6.

(b) Principles of consolidation

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

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

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

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

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

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

(c) Operating segments

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

(e) Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

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

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

(ii) Interest income

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

(f) Government grants

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

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

(g) Income tax – Note 9

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

(h) Leases

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

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

(i) Cash and cash equivalents

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

(j) Trade receivables

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

(k) Inventories

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

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

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

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

(l) Investments and other financial assets

Classification

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

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

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

Recognition and derecognition

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

Subsequent measurement

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

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

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

(m) Property, plant and equipment

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

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

(n) Depreciation

Useful lives

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

Depreciation of property, plant and equipment	2010	2009
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

(o) Intangible assets

(i) Research and development

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

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

(ii) Patents and Trademarks

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

(p) Impairment of assets

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

(q) Trade and other payables

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

(r) Provisions

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

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

Provision for warranties

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

(s) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Share-based compensation

Share-based compensation benefits are provided to employees via the Nanosonics share-based compensation plans. Information relating to the plans is set out in the Remuneration Report on page 35 and in note xx 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.

Bonuses

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

Termination benefits

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

(t) Contributed equity

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

(u) Earning per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

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

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

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

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

(w) Rounding of amounts

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

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting period ended 30 June 2010 and these have not yet been adopted by the Group. Where applicable the Group will apply the revised standards and interpretations prospectively with effect from 1 July 2010. The new accounting standards and interpretations which are likely to affect the Group with effect from 1 July 2010 are set out below. None is expected to have a significant effect on the way the Group accounts for and presents its financial results.

i AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

ii AASB 2009-8 Amendments to AASB 2 – Group Cash settled Share-based Payment Transactions

iii AASB 2009-10 Amendments to AASB 132 – Classification of Rights Issues

iv AASB 2009-12 Amendments to Australian Accounting Standards

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

(y) Comparative figures

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

4. Financial risk management

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

The Group held the following financial instruments

Financial assets	**2010 $'000**	**2009 $'000**
Cash and cash equivalents	1,600	3,025
Fixed rate notes	11,687	3,012
Floating rate notes	7,857	7,844
Receivables	461	468

The floating rate notes, issued by Westpac Banking Corporation and Australia and New Zealand Banking Group Limited, mature on 24 September 2010 and 18 September 2012, respectively. Interest is paid quarterly in arrears at fixed margins of 0.32% and 0.42% above 90-day BBSW, respectively.

Financial liabilities	**2010 $'000**	**2009 $'000**
Trade and other payables	1,004	933

Foreign exchange risk

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

	2010		**2009**	
	Euro €'000	**USD $'000**	**Euro €'000**	**USD $'000**
Cash at bank	52	120	3	-
Other receivables	8	-	22	-
Trade and other payables	(51)	(34)	(11)	(3)
Net investment in foreign operation	25	-	25	-

Credit risk

Credit risk arises from holdings in cash, cash equivalents, trade receivables, deposits and floating rate notes with banks. The Group invests only in deposits and floating rate notes offered by Australia's four main banks.

Risks associated with credit transactions with customers in the financial year were not considered to be significant. The maximum exposure to credit risk as at the reporting date is the carrying amount of the financial assets as set out above. The carrying amount is determined according to the Group's accounting policies.

Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are invested in short and medium term instruments which are tradeable in highly liquid markets. The amounts disclosed in the table below are undiscounted cash flows from assets and financial liabilities based on their contractual maturity date.

	< 1 year $000	1-5 years $000	>5 years $000	Total $000
Year ended 30 June 2010				
Liquid financial assets				
Cash and cash equivalents	14,285	6,859	-	**21,144**
Trade and other receivables	461	-	-	**461**
Total liquid financial assets	**14,746**	**6,859**	**-**	**21,605**
Financial liabilities				
Trade and other payables	(1,004)	-	-	**(1,004)**
Total financial liabilities	**(1,004)**	**-**	**-**	**(1,004)**
Net inflow/(outflow)	**13,742**	**6,859**	**-**	**20,601**
Year ended 30 June 2009				
Liquid financial assets				
Cash and cash equivalents	6,037	7,844	-	**13,881**
Trade and other receivables	468	-	-	**468**
Total liquid financial assets	**6,505**	**7,844**	**-**	**14,349**
Financial liabilities				
Trade and other payables	(933)	-	-	**(933)**
Total financial liabilities	**(933)**	**-**	**-**	**(933)**
Net inflow/(outflow)	**5,572**	**7,844**		**13,416**

5. 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.

6. Operating segments

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

Types of products and services

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

Major customers

The group supplies an external customer which accounted for 92% (2009: 74%) of external revenue.

Geographical segments

Geographically, the Group operates in the Australian and European markets. Australia is the home country of the parent entity. Operations in Europe commenced in August 2007. Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers. The company does not have external revenues from external customers that are attributable to any foreign country other than as shown.

Segment Revenue	2010 $'000	2009 $'000
Australia	705	229
Other foreign countries	58	80
Total revenue	**763**	**309**

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

Segment Assets	2010 $'000	2009 $'000
Australia	1,545	2,107
Other foreign countries	38	38
Total assets	**1,583**	**2,145**

Notes to and forming part of the segment information accounting policies

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

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

7. Other income

	2010 $'000	2009 $'000
Government grants	161	150
Interest income	785	1,194
	946	**1,344**

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 government assistance.

8. Loss before income tax expense

The loss from ordinary activities before income tax includes:

	2010 $'000	2009 $'000
Expenses		
Depreciation and amortisation	769	419
Research and development costs	2,369	3,435
Rental expenses relating to operating leases	329	326
Share-based compensation	235	230

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

9. Taxation

	2010 $'000	2009 $'000
(a) Income tax expense		
Loss from ordinary activities	8,342	8,754
Small business and general business tax break (50%)	19	-
The prima facie income tax benefit applicable to the operating profit (loss) is calculated at 30% (2009:30%)	2,507	2,626
Sundry items	-	-
Future income tax benefit not booked	2,507	2,626
Income tax attributable to operating loss	-	-
(b) Deferred tax assets		
Deferred tax assets not taken to account		

The potential deferred tax assets in a controlled entity, which is a company, arising from tax losses and timing differences 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

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

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

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

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

10. Current assets – cash and cash equivalents

	2010 $'000	2009 $'000
Cash at bank and on hand	272	95
Deposits on call	1,327	2,930
Term Deposits	11,688	-
Floating Rate Notes	7,857	7,844
Fixed Rate Notes	-	3,012
	21,144	**13,881**

Cash term investments which are highly liquid irrespective of their maturity dates are classified as current assets at market value as they may not necessarily be held by the Company for their full term.
The Group's exposure to interest rate risk is discussed in note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

11. Current assets – trade and other receivables

	2010	2009
Trade receivables	301	254
GST receivable	138	167
VAT receivable	13	33
Other receivables	9	14
	461	**468**

Information about the Group's exposure to foreign currency risk in relation to trade and other receivables is provided in note 4.
Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.
As at 30 June 2010, trade receivables of $2,000 (2009 - $1,000) were past due by up to 3 months. These relate to independent customers for whom there is no recent history of default. There were no receivables past due by more than 3 months and no receivable was considered to be impaired.

12. Current assets – inventories

	2010	2009
Raw materials and stores – at cost	941	658
Work in progress – at cost	133	66
Finished goods – at cost	497	195
	1,571	**919**

Inventories taken to operating expense during the year ended 30 June 2010 amounted to $205,000 (2009 - $46,000)
Write-downs of inventories to net realisable values during the year ended 30 June 2010 amounted to $16,000 (2009 – $58,000). The expense has been included in raw materials and consumables used in the income statement.

13. Current assets – other

	2010	2009
Prepayments	189	107
Interest income receivable	-	62
	189	**169**

14. Parent company investments in controlled entities

			Equity holding	
Name of controlled entity	**Country of incorporation**	**Class of shares**	**2010**	**2009**
Nanosonics Europe GmbH	Germany	Ordinary	100%	100%
Saban Ventures Pty Limited	Australia	Ordinary	100%	100%

15. Non-current assets - property plant and equipment

	Laboratory fit out	Laboratory equipment	Office furniture & equipment	Leasehold improvements	Manufacturing equipment	Computer equipment & software	Total
Year ended 30 June 2008							
Opening net book amount	11	96	395	290	-	-	**781**
Additions	17	8	40	104	1,036	275	**1,469**
Depreciation charge	(6)	(42)	(139)	(125)	(76)	(28)	**(409)**
Closing net book amount at 30 June 2009	22	62	296	269	960	247	**1,856**
At 30 June 2009							
Cost or fair value	343	228	737	429	1,036	275	**3,048**
Accumulated depreciation	(321)	(166)	(441)	(160)	(76)	(28)	**(1,192)**
Net book amount at 30 June 2009	22	62	296	269	960	247	**1,856**
Year ended 30 June 2010							
Opening net book amount	22	62	296	269	960	247	**1,856**
Additions	-	39	24	24	37	61	**185**
Depreciation charge	(4)	(26)	(119)	(265)	(213)	(101)	**(728)**
Closing net book amount at 30 June 2010	18	75	201	28	784	207	**1,313**
At 30 June 2010							
Cost or fair value	343	267	761	453	1,073	336	**3,233**
Accumulated depreciation	(325)	(192)	(560)	(425)	(289)	(129)	**(1,920)**
Net book amount at 30 June 2010	**18**	**75**	**201**	**28**	**784**	**207**	**1,313**

16. Non-current assets – intangible assets

	2010 $'000	2009 $'000
Development Costs		
At cost	201	201
Accumulated amortisation	(44)	(3)
Net book value	**157**	**198**

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 is included in depreciation and amortisation expense in the income statement.

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

	2010 $'000	2009 $'000
Deposits and bonds	113	91

18. Current liabilities – trade and other payables

	2010 $'000	2009 $'000
Trade payables	476	629
Other payables	528	304
Total	**1,004**	**933**

19. Current liabilities - provisions

	2010 $'000	2009 $'000
Employee bonuses	86	147
Employee benefits-annual leave & long service leave	276	190
Total	**362**	**337**

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

20. Contributed equity

Share capital

225,753,032 (2009: 196,282,947) ordinary fully paid shares

Movements in ordinary shares on issue	Number of shares	$'000
At 30 June 2008	**195,083,623**	**41,150**
Share options exercised	1,199,324	262
Add: share issue costs recovered		13
At 30 June 2009	**196,282,947**	**41,425**
Share Placement	21,818,182	12,000
Share Purchase Plan	6,558,503	3,607
Less: share issue costs		(657)
Share options exercised	1,093,400	252
At 30 June 2010	**225,753,032**	**56,627**

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.

In terms of ASX Listing Rule 7.1, the total of 28,376,685 new shares issued under the Share Placement and the Share Purchase Plan represented an additional 14.4% of the Company's shares previously on issue.

At 30 June 2010 there were 6,263,000 (2009: 7,548,500) options to acquire one ordinary share each outstanding, of which 4,299,900 (2009: 3,336,960) had vested and were exercisable.

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

Capital Management

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

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

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

21. Reserves – share-based payments reserve

	2010 $'000	2009 $'000
Balance 1 July	802	733
Employee Options expense	252	179
General Options expense	15	19
Employee shares expense	(32)	32
Amounts transferred to equity:		
Employee options exercised	(150)	(59)
General options exercised	-	(12)
Amounts transferred to accumulated losses:		
Employee options lapsed	(39)	(90)
Balance 30 June	**848**	**802**

The share-based payments reserve is used to recognise the fair value at grant date of:
options issued but not vested or exercised.
shares with unsatisfied vesting conditions issued to employees

22. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2009: Nil).

23. Financial instruments

(a) Interest rate risk exposures

	Notes	Fixed interest rate maturing in:					
		Floating interest rate	1 Year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
2010							
Financial assets							
Cash		1,600	-	-	-	-	**1,600**
Floating Rate Note		7,857	-	-	-	-	**7,857**
Term Deposits		-	11,688	-	-	-	**11,688**
Receivables	**11**	-	-	-	-	461	**461**
Others	**13**	-	-	-	-	189	**189**
Total financial assets		**9,457**	**11,688**	**-**	**-**	**650**	**21,795**
Weighted average interest rate		5.08 %	5.33%				
Financial liabilities							
Payables	**18**	-	-	-	-	1,004	**1,004**
Net financial assets (liabilities) 2010		**9,457**	**11,688**	**-**	**-**	**(354)**	**20,791**
2009							
Financial assets							
Cash		3,025	-	-	-	-	**3,025**
Floating Rate Note		-	-	7,844	-	-	**7,844**
Fixed Rate Notes		-	3,012	-	-	-	**3,012**
Receivables						468	**468**
Others	**11**					201	**201**
Total financial assets	**13**	**3,025**	**3,012**	**7,844**	**-**	**669**	**14,550**
Weighted average interest rate		2.5%	5.75%	3.70%	-	-	**-**
Financial liabilities							
Payables	**18**	-	-	-	-	933	**933**
Net financial assets (liabilities) 2009		**3,025**	**3,012**	**7,844**	**-**	**(264)**	**13,617**

At 30 June 2010, if interest rates had increased by 75 and/or decreased by 100 basis points from the year end rates with all other variables held constant, post-tax profit for the year would have been $130,000 higher/$173,000 lower mainly as a result of higher/lower interest income from cash assets.

(b) Risk exposure

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

24. Capital and leasing commitments

	2010 $'000	2009 $'000
Non-cancellable capital expense commitments		
Future capital expense commitments not provided for in the financial statements and payable:		
Within one year	-	-
One year later and no later than five years	-	-
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	195	261
One year or later and no later than five years	189	43
	384	**304**

25. Contingent liabilities

Government grants received

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

	Project completion date	Interest rates applicable to repayments	Total grant income received over the project life $'000
R&D Start Grant	30 June 2007	5.395%	**1,889**
Commercial Ready Grant	30 September 2007	5.665%	**3,191**

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

The Directors consider that none of the circumstances required for grant income to be refundable has occurred to the date of this report or is foreseeable. However, due to uncertainty inherent in the activities subject to the grants, the amounts stated above, together with applicable interest, represent contingent liabilities as at 30 June 2010.

26. Employee benefits

	2010 $'000	2009 $'000
Aggregate liability for employee benefits, including on-cost:		
Payables	256	147
Employee benefits provision	276	190
Number of employees at year end	45	38

Superannuation commitments

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

27. Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Group to the Company and its related practices:	2010 $000's	2009 $000's
Audit services		
UHY Haines Norton in Australia:		
Audit and review of financial reports	30	28
Total remuneration for audit services	**30**	**28**
Assurance related services		
UHY Haines Norton in Australia:		
Audit of regulatory returns	3	2
Total remuneration for assurance related services	**3**	**2**
Taxation services		
UHY Haines Norton in Australia:		
Tax compliance services	-	1
International taxation services	14	3
International offices of UHY:		
International taxation services	-	11
Total remuneration for taxation services	**14**	**15**
Total remuneration for non-audit services	**17**	**17**

28. Related party disclosure

(a) Parent entities

The parent entity within the Group is Nanosonics Limited which at 30 June 2010 owned 100% of the issued ordinary shares of Nanosonics Europe GmbH and Saban Ventures Pty Limited.

(b) Subsidiaries

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

(c) Directors and Key management personnel

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

(d) Transactions with related parties

The following transactions occurred with related parties:

	2010 $'000	2009 $'000
Sales of goods and services		
Sale of products to related parties	705	196
Purchases of goods		
Purchases of goods and services from related parties	489	470
Superannuation contributions		
Contributions to superannuation funds on behalf of all employees	343	339
Other transactions		
Rent of premises and equipment from related parties	112	108

(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:

	2010 $'000	2009 $'000
Current receivables (supply of goods and services)	310	140
Current payables (purchases of goods and services)	79	21

(f) Guarantees

No guarantees were provided during the year under review and none were in effect at the yearend between the Company and its subsidiaries (2009: Nil).

(g) Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

29. Directors and key management personnel disclosures

(a) Directors

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

Mr Maurie Stang, Non-Executive Chairman

Mr David Radford, Executive Director and CEO

Dr Ron Weinberger, Executive Director

Dr David Fisher, Non-Executive Director

Mr Richard England, Non-Executive Director (appointed 5 February 2010)

Mr David Slack, Non-Executive Director (resigned 22 January 2010)

(b) Key management personnel

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

Mr Chris Grundy, Chief Financial Officer & Company Secretary

Mr Arjang Safa, General Manager, Manufacturing & Supply Chain

Dr Jianhe Chen, Quality Assurance and Regulatory Manager (appointed 20 July 2009)

All of the above persons were employed by Nanosonics Limited and were respectively Directors and Key Management Personnel for the year ended 30 June 2009, except for:

Directors

Mr Richard England (appointed 5 February 2010)

Mr David Slack (appointed 5 February 2009)

Key Management Personnel

Dr Jianhe Chen, Quality Assurance and Regulatory Manager (appointed 20 July 2009)

(c) Directors and key management personnel compensation	Group and Company	
	2010 $	**2009 $**
Director fees	121,691	119,546
Consultant fees	-	-
Short term employee benefits	999,638	1,164,885
Post-employment benefits	78,268	93,572
Termination benefits	-	36,431
Share based payments	216,916	128,389
Total compensation	**1,416,513**	**1,542,823**
Total compensation includes total remuneration for directors of the parent entity of	**796,489**	**731,867**

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 35 to 43.

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

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in Sections 6 to 8 of the Remuneration report on pages 35 to 43.

(ii) Options holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of the Company and key management persons 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	2010	-	-	-	-	-	-	-
	2009	-	-	-	-	-	-	-
David Radford	2010	1,000,000	-	-	-	1,000,000	495,000	505,000
	2009	-	1,000,000	-	-	1,000,000	-	1,000,000
David Fisher	2010	-	-	-	-	-	-	-
	2009	-	-	-	-	-	-	-
Richard England	2010	-	50,000	-	-	50,000	-	50,000
	2009	-	-	-	-	-	-	-
David Slack[1]	2010	50,000	-	(50,000)	-	-	-	-
	2009	-	50,000	-	-	50,000	-	50,000
Ron Weinberger	2010	1,175,000	-	-	-	1,175,000	1,175,000	-
	2009	1,175,000	-	-	-	1,175,000	775,500	399,500
Key Management Personnel								
Chris Grundy	2010	350,000	-	-	-	350,000	198,000	152,000
	2009	250,000	100,000	-	-	350,000	82,500	267,500
Arjang Safa	2010	430,000	-	-	-	430,000	168,300	261,700
	2009	80,000	350,000	-	-	430,000	26,400	403,600
Jianhe Chen[2]	2010	-	-	-	-	-	-	-
	2009	-	-	-	-	-	-	-

[1] Option holder resigned during the year and all options not exercised then lapsed.
[2] Dr Jianhe Chen was appointed on 20 July 2009

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 35 to 43.

Share holdings name		Balance at start of the year	Received during the year on the exercise of options	Other net changes during the year	Balance at end of the year
Directors					
Maurie Stang	2010	28,377,000	-	47,124	28,424,124
	2009	28,377,000	-	-	28,377,000
David Radford	2010	116,117	-	9,090	125,207
	2009	-	-	116,117	116,117
Richard England[1]	2010	-	-	25,000	25,000
	2009	-	-	-	-
David Fisher	2010	944,426	-	9,514	953,940
	2009	944,426	-	-	944,426
Ron Weinberger	2010	114,083	-	-	114,083[3]
	2009	-	-	114,083	114,083[3]
David Slack[2]	2010	100,000	-	(100,000)	-
	2009	-	-	100,000	100,000
Key Management Personnel					
Chris Grundy	2010	132,755	-	31,090	163,845
	2009	20,000	-	112,755	132,755
Arjang Safa	2010	39,083	-	-	39,083
	2009	-	-	39,083	39,083
Jianhe Chen	2010	-	-	-	-
	2009	-	-	-	-

[1]Shareholder appointed during the year
[2]Shareholder resigned during the year
[3]Included in the balance are 75,000 shares issued under the DESP as part of the Company's long term incentive plans. The shares vest in three equal tranches annually commencing 26th June 2010 and are forfeitable if the holder ceases employment before the vesting date.

(e) Loans to directors and key management personnel

During the financial year and to the date of this report, the Group made no loans to Directors and key management personnel and none were outstanding at the year ended 30 June 2010 (2009 $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 2010 and 30 June 2009. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

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

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

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

	2010 $'000	2009 $'000
Amounts recognised as revenue		
Products sold	705	196
Amounts recognised as expenses		
Services received	60	131
Products purchased and services received	411	339
Rent of premises	112	100
Rent of equipment	-	8

The aggregate amounts of assets and liabilities relating to the above types of transactions with Directors and Key Management Personnel of the Group were:

	2010 $'000	2009 $'000
Assets		
Current receivables	310	140
Liabilities		
Current liabilities	79	21

30. Notes to the cash flow statements

(a) Reconciliation of cash

	Notes	2010 $'000	2009 $'000
Cash and cash equivalents		**21,144**	**13,881**

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

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

	2010 $'000	2009 $'000
Operating (loss) after income tax	**(8,172)**	**(8,754)**
Adjustment for:		
Depreciation and amortisation	769	419
Share based payments	235	230
Changes in assets and liabilities		
(Increase)/decrease in receivables	7	(218)
(Increase)/decrease in inventories	(653)	(919)
(Increase)/decrease in other current assets	(21)	-
(Increase)/decrease in other non-current assets	(22)	(92)
Increase/(decrease) in creditors and borrowings	70	178
Increase/(decrease) in provisions	25	20
Net cash used in operating activities	**(7,762)**	**(9,136)**

(c) Credit standby arrangements unused

	2010 $'000	2009 $'000
Unused credit facility	-	-

31. Earnings (loss) per share

	2010 Cents	2009 Cents
(a) Basic earnings (loss) per share		
Loss attributable to ordinary shareholders of the Company	(3.9)	(4.5)
(b) Diluted earnings (loss) per share		
Loss attributable to ordinary shareholders of the Company	(3.7)	(4.3)
(c) Earnings (losses) used in calculating earnings (loss) per share		
Net loss after income tax expense attributable to shareholders	(8,172)	(8,754)
(d) Weighted average number of shares used		
For basic earnings per share	211,432,508	196,282,947
For diluted earnings per share	218,431,703	202,182,390
(e) Information concerning options granted		

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

32. Share-based compensation

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

(a) Option plans

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

General Share Option Plan (GSOP)

The General Share Option Plan is designed to provide incentive, recognition and reward for non-employees, usually consultants and contractors, who create long-term value for the Company.

50,000 options were issued under the GSOP during the financial year (2009: 220,000 options 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. At the date of this report, the maximum number of ESOP options on issue in the current five-year period was 7,230,000, comprising 3.7% of total shares on issue.

No options were issued under the ESOP during the financial year (2009: 2,410,000 options issued).

(b) Exercise of options

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

(c) Unexpired options

	ESOP		GSOP		All Option Plans	
Number of Options	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Unexpired options as at 1 July	**5,563,500**	**5,087,000**	**1,985,000**	**9,111,560**	**7,548,500**	**14,198,560**
Granted during the year	-	2,410,000	50,000	220,000	50,000	2,630,000
Exercised during the year	(768,400)	(561,500	(325,000)	(50,000)	(1,093,400)	(611,500)
Forfeited during the year	(242,100)	(1,372,000)	-	-	(242,100)	(1,372,000)
Expired during the year	-	-	-	(7,296,560)	-	(7,296,560)
Unexpired options as at 30 June	**4,553,000**	**5,563,500**	**1,710,000**	**1,985,000**	**6,263,000**	**7,548,500**
Number of holders as at 30 June	26	31	24	24	50	55

Notes to the financial statements (continued)

For the year ended 30 June 2010

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

Option Type	Exercise price	Grant date	Assessed fair value at grant date	Expiry date	Number at start of the year	Number granted during the year	Number exercised during the year	Number forfeited during the year	Number at end of the year	Number vested and exercisable at end of year
ESOP	$0.20	Apr-07	$0.24	17-May-11	2,285,000		(753,400)	(151,600)	1,380,000	1,380,000
ESOP	$0.75	Apr-07	$0.09	17-May-11	538,500			(65,500)	473,000	473,000
GSOP	$0.20	Apr-07	$0.24	17-May-11	1,650,000		(300,000)		1,350,000	1,350,000
GSOP	$0.20	Jul-07	$0.54	17-Jul-11	65,000		(25,000)		40,000	17,900
GSOP	$0.30	Jul-07	$0.48	17-Jul-11	50,000				50,000	33,000
ESOP	$0.75	Jul-07	$0.28	17-Jul-11	250,000				250,000	165,000
ESOP	$0.75	Nov-07	$0.15	30-Nov-11	80,000				80,000	52,800
ESOP	$0.30	Nov-08	$0.06	17-Nov-12	500,000				500,000	165,000
ESOP	$0.30	Nov-08	$0.06	17-Nov-12	90,000		(15,000)		75,000	15,000
GSOP	$0.30	Nov-08	$0.06	17-Nov-12	50,000				50,000	16,500
ESOP	$0.30	Jun-09	$0.30	16-Jun-13	500,000				500,000	165,000
ESOP	$0.345	Jun-09	$0.23	26-Jun-13	1,320,000			(25,000)	1,295,000	410,600
GSOP	$0.345	Jun-09	$0.23	26-Jun-13	170,000				170,000	56,100
GSOP	$0.55	Jan-10	$0.30	5-Jan-14		50,000			50,000	-
Totals as at year end					**7,548,500**	**50,000**	**(1,093,400)**	**(217,100)**	**6,263,000**	**4,299,900**

(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 2010 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	$0.20	Apr-07	17-May-11	$0.38	45.73%	0%	6.17%	$0.24
ESOP	$0.75	Apr-07	17-May-11	$0.38	45.73%	0%	6.17%	$0.09
GSOP	$0.20	Apr-07	17-May-11	$0.38	45.73%	0%	6.40%	$0.54
GSOP	$0.30	Jul-07	17-Jul-11	$0.69	45.73%	0%	6.40%	$0.48
ESOP	$0.75	Jul-07	17-Jul-11	$0.69	45.73%	0%	6.40%	$0.28
ESOP	$0.75	Nov-07	30-Nov-11	$0.72	46.02%	0%	6.27%	$0.15
ESOP	$0.30	Nov-08	17-Nov-12	$0.19	51.58%	0%	4.24%	$0.06
GSOP	$0.30	Nov-08	17-Nov-12	$0.19	51.58%	0%	4.24%	$0.06
ESOP	$0.30	Jun-09	16-Jun-13	$0.48	58.75%	0%	5.01%	$0.30
ESOP	$0.345	Jun-09	26-Jun-13	$0.44	59.06%	0%	5.32%	$0.23
GSOP	$0.345	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

(e) Recognition of expense of options granted

General Share Option Plan (GSOP)

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

Employee Share Option Plan (ESOP)

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

(f) Employee share plans

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

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

Exempt Employee Share Plan ("EESP")

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

Nanosonics Deferred Employee Share Plan ("DESP")

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

(g) Shares granted

During the financial year no new shares were granted under the DESP (2009: 587,824 new shares). Details of shares granted under the DESP to the date of this report are set out below.

Share Plan	Share issue price	Grant date	Assessed fair value at grant date	Closing share price on grant date	Number granted
DESP	0.2880	23 March 09	0.2880	0.2950	336,424
DESP	0.4251	26 June 09	0.4251	0.4100	176,400
DESP	0.4251	26 June 09	0.4251	0.4100	75,000
Total Employee Shares granted to date					**587,824**

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

(h) Fair value of shares granted

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

(i) Recognition of expense of shares granted

Deferred Employee Share Plan (DESP)

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

(j) Shares on issue under employee share plans

	DESP		EESP		All Share Plans	
Number of Shares	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Employee Shares on issue as at 1 July	**580,291**	**-**	**-**	**-**	**580,291**	**-**
Granted during the year	-	587,824	-	-	-	587,824
Withdrawn during the year	(78,654)	(7,533)	-	-	(78,654)	(7,533)
Forfeited during the year	(5,880)	-	-	-	(5,880)	-
Employee Shares on issue as at 30 June	**495,757**	**580,291**	**-**	**-**	**495,757**	**580,291**
Number of holders as at 30 June	28	33	-	-	28	33

(k) Expenses arising from share-based compensation transactions

	2010 $'000	**2009 $'000**
Options issued under ESOP	252	179
Options issued under GSOP	15	19
Shares issued under DESP	-	172
Total share-based compensation	**267**	**370**

33. Parent entity information

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

	2010 $'000	2009 $'000
Profit or loss for the year	(8,172)	(8,754)
Total comprehensive income	**(8,172)**	**(8,754)**
Total current assets	23,310	15,385
Total assets	**24,895**	**17,532**
Total current liabilities	1,300	1,223
Total liabilities	**1,319**	**1,223**
Contributed equity	56,627	41,425
Reserves	847	802
Accumulated losses	(33,902)	(25,918)
Total equity	**23,572**	**16,309**

Contingent liabilities

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

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

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

34. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2010 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 45 to 82 are in accordance with the *Corporations Act 2001*, including:
   (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
   (b) giving a true and fair view of the Company's and Group's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and
2. there are reasonable grounds to believe that the Company and its subsidiaries will be able to pay their debts as and when they become due and payable.

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

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

Richard England

Richard England
Director
Sydney
18 August 2010

Independent auditors' report

UHY Haines Norton
Chartered Accountants

Independent Audit Report to the Members of Nanosonics Limited

Report on the Financial Report

We have audited the accompanying financial report of Nanosonics Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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Chartered Accountants

Independence

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

Auditor's Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 43 of the directors' report for the year ended 30 June 2010. 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 2010, complies with s 300A of the Corporations Act 2001.

M. Nicholaeff

UHY Haines Norton

M. Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
18 August 2010

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Shareholder information

The shareholder information set out below was applicable as at 16 August 2010.

A. Equity security holders

Twenty largest holders of quoted equity securities.

Ordinary shares	Number of quoted shares held	Percentage
Bernie Stang	28,482,756	12.62%
Maurie Stang	28,307,756	12.54%
Steve Kritzler	22,297,666	9.88%
Cogent Nominees Pty Limited	7,712,175	3.42%
National Nominees Limited	5,133,773	2.27%
Australian Executor Trustees Limited	4,881,077	2.16%
ANZ Nominees Limited	4,257,760	1.89%
3M Company	4,000,000	1.77%
Citicorp Nominees Pty Limited	3,942,677	1.75%
JP Morgan Nominees Australia Limited	2,844,670	1.26%
Towns Corporation Pty Limited	2,794,737	1.24%
Asia Union Investments Pty Limited	2,209,090	0.98%
Werft Pty Limited	2,000,000	0.89%
Lowan Investments Pty Limited	1,878,333	0.83%
Simon Magasanik	1,505,488	0.67%
Bennelong Resources Pty Limited	1,500,000	0.66%
HSBC Custody Nominees (Australia) Limited	1,308,230	0.58%
Kefford Holdings Pty Limited	1.300.000	0.58%
Moore Family Nominee Pty Limited	1,292,993	0.57%
Bevan Holdings Pty Limited	1,262,487	0.56%
Total top 20 holders	**128,911,668**	**57.1%**
Total all other holders	96,841,364	42.9%
Total shares on issue	**225,753,032**	**100%**

Unquoted equity securities	Number of options over ordinary shares	Number of holders
Options on issue		
General Share Options to take up unissued ordinary shares	1,710,000	24
Employee Share Options to take up unissued ordinary shares	5,953,000	27
Total options on issue	**7,663,000**	**51**

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	85	
1,001 – 5,000	346	1
5,001 – 10,000	313	
10,001 – 100,000	1,138	36
100,001 and over	217	14
Total Holders	**2,099**	**51**

There were 26 holders of less than a marketable parcel of 770 ordinary shares.

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage of total ordinary shares
Bernie Stang	28,482,756	12.62%
Maurie Stang	28,424,124	12.59%
Steve Kritzler	22,297,666	9.88%
Kinetic Investment Partners Limited	13,729,317	6.10%

D. Voting rights

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

(a) Ordinary shares including restricted ordinary shares

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

(b) Options

Options have no voting rights.

Glossary

510(k)	Premarket Notification to the FDA, under Section 510(k) of the Food, Drug and Cosmetic Act, of intent to market a medical device in the USA
AASB	Australian Accounting Standards Board
AGM	Annual General Meeting
ANZ	Australia and New Zealand
APES	Standards issued by the Accounting Professional & Ethical Standards Board (APESB)
ASUM	Australian Society for Ultrasound in Medicine
ASX	Australian Securities Exchange
BBSW	Bank bill swap reference rate
CDC	Centre for Disease Control (USA)
Clostridium difficile	A bacterium, the most common cause of infectious diarrhoea in hospitals and long-term care homes
CMDCAS	Canadian Medical Devices Conformity Assessment System
Company	Nanosonics Limited
Date of this report	18 August 2010
DESP	Deferred Employee Share Plan
EESP	Exempt Employee Share Plan
EPS	Earnings Per Share
ESOP	Employee Share Option Plan
FDA	Food and Drug Administration – USA
Financial Year	Year to 30 June
FY	Financial year, eg. FY2011 is the financial year ending 30 June 2011
Glutaraldehyde	An organic compound used to disinfect medical and dental equipment. It is toxic and can cause severe eye, nose, throat and lung irritation, along with headaches, drowsiness and dizziness. It is a main source of occupational asthma among health care providers
Golden Staph	Staphylococcus aureus, or S. aureus - a common bacterium that can cause severe infections, even death. The strains are resistant to antibiotics.
Group	Nanosonics Limited and its wholly owned subsidiary companies
GSOP	General Share Option Plan
GST	Goods and Services Tax
HLD	High Level Disinfection - the minimum treatment recommended for reprocessing an 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
ISO	International Organisation for Standardisation
ISO 13485	Quality Management System for Medical Devices

Glossary (continued)

NanoNebulant®	The biocide used in Nanosonics' technological process
OEM	Original Equipment Manufacturer. In the context of Nanosonics, OEMs are typically the manufacturers of ultrasound consoles and probes.
PCT	Patent Co-operation Treaty
Q 1, 2, 3, or 4	3-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
R&D	Research and Development
Reporting period	Year to 30 June 2010
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

Nanosonics Limited ABN 11 095 076 896 Incorporated 14 November 2000

Directors
Maurie Stang
David Radford
Richard England
David Fisher
Ron Weinberger

Secretary and Chief Financial Officer
Chris Grundy

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Spruson & Ferguson
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Holtz & Carstens
Neuer Wall 44
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Bankers
ANZ Banking Group Limited
Level 1, 20 Martin Place
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Deutsche Bank AG
Eppendorfer Landstrasse 70
Hamburg 20249 Germany

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

2010 Annual General Meeting
The 2010 AGM of Nanosonics Limited will be held:
At 4.00pm on Wednesday 3rd November 2010
At Level 47, MLC Centre, 19 Martin Place,
Sydney NSW Australia

Website Address
www.nanosonics.com.au

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