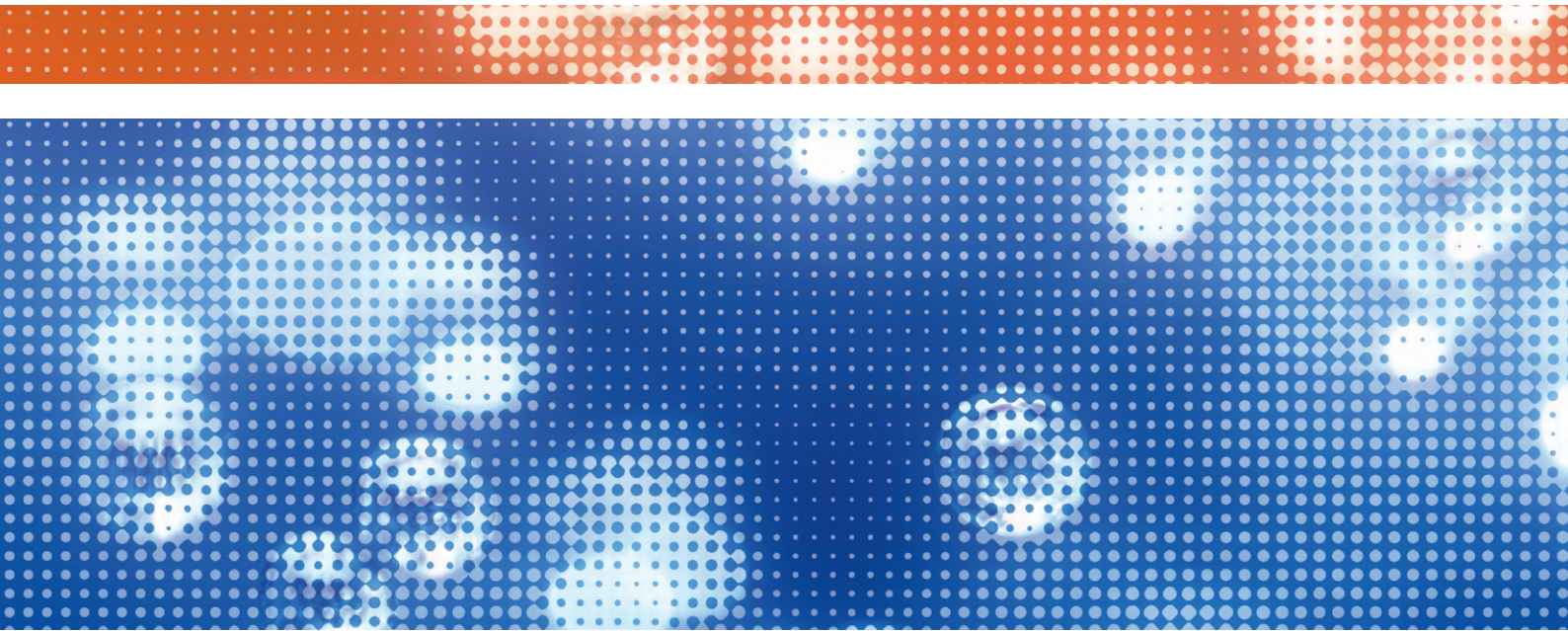


nanosonics
annual report 08



Company overview



Nanosonics is an Australian public company (ASX: NAN) headquartered in Sydney. The Company owns, develops and commercialises intellectual property relating to a unique disinfection and sterilisation technology, which has a number of core benefits compared to existing technologies. In parallel with the commercialisation of Nanosonics' first environmentally friendly Ultrasound Probe Disinfector, the Company is rapidly developing further applications of its proprietary technology for the healthcare market and other industries. The commercial model provides two revenue streams; sale of consoles followed by recurring incomes from the dedicated consumables used in the process.

Fiscal Year 2008 represented a turning point as the Company moved into commercialisation of its launch product the Ultrasound Probe Disinfector. Nanosonics is on track to launch this first product into Australasian and European markets during the second half of FY09.

Competitive advantage

The Company's, unique, patented disinfection and sterilisation technology creates an aerosol of highly concentrated hydrogen peroxide, called NanoNebulant™. This technology provides a platform for the rapid development of future products. The unique benefits of the technology include: short process times, high efficacy superior materials compatibility and is an environmentally friendly process.

During the year the Company has added three new patent applications, relating to its platform technology, to a portfolio of ten patent families prosecuted in Australia and internationally.

Manufacturing

In early 2008 Nanosonics completed a low volume manufacturing facility in Sydney. This facility was audited by TÜV Rheinland in February 2008 and was certified to EN ISO 13485 quality standards.

Tooling contracts for the Ultrasound Probe Disinfector have been let and inventories purchased for the first production models planned in Q2-F09.

Regulatory approvals

August 2007 saw the comprehensive audit of Nanosonics by the notified body TÜV Rheinland. This audit resulted in the Company achieving CE Mark for the Ultrasound Probe Disinfector as well as the Canadian Medical Devices Conformity Assessment System Certification (CMDCAS). The Company has lodged certification documentation to the TGA in Australia. It expects approval to market the product in Q2-F09, which is significantly ahead of schedule.

Product development

The product design of the Ultrasound Probe Disinfector has been enhanced to enable scalability and consistency in manufacture. The transferability of these technologies into future products will enable a faster path to market for products already under development.

Path to Market

The Ultrasound Probe Disinfector is targeted for launch into the Australian and New Zealand markets in Q3-F09 and into the targeted European markets of France, Germany and the UK later in the quarter. Distribution partners have been identified, with agreements to be signed in Q2-F09.

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Chairman's Letter

01

Dear Shareholders,

It is my pleasure to present the second Annual Report for Nanosonics Limited. Since the Company's listing, Nanosonics has made outstanding progress in terms of its research and development program, regulatory efforts, manufacturing scale up and the commercialisation efforts supporting the launch of the Ultrasound Probe Disinfector.

On behalf of the Board of Directors, shareholders and the Nanosonics Team, I offer a warm welcome to Mr. David Radford, who was appointed CEO and Director in June 2008. David possesses an impressive international business background; he has held a number of senior roles within GE Healthcare (Ultrasound and Clinical Systems Services), Recall Corporation (a division of Brambles Industries Limited) and Cobe Laboratories. He has proven credentials in business development, operations and regulatory functions within global businesses. The Board supports David's vision to drive the Company as a global leader in infection prevention delivering both capital and revenue growth for its shareholders, whilst maintaining a strong commitment to both social responsibility and superior environmental credentials.

The Company enjoys substantial cash reserves, a disciplined operational capability demonstrated by its successful budgeting, planning and cost control outcomes for the fiscal year. It is pleasing to note that the Nanosonics Team have delivered a world class solution which is now moving into its manufacturing and commercialisation phase. The prototypes of the Ultrasound Probe Disinfector, branded Trophon™, has been widely accepted and endorsed by distributors and customers alike on a worldwide basis.

Nanosonics made the decision to launch an advanced version of the Trophon device in the first quarter of 2009 (rather than the original projected launch window) with enhanced performance and functionality. This represents

the successful application of the Company's platform "NanoNebulant" technology and positions the Company strongly for the successful commercialisation of its emerging stream of new products.

The international market for near ambient disinfection and sterilisation continues to grow strongly. It is important to note that the Company has identified several opportunities in the healthcare field which each represent markets in excess of USD500 million per annum. There is a validated and large scale opportunity in a variety of fields leveraging our "core technology". Major markets are evolving in the fields of food processing, space decontamination, manufacturing, IT, and significantly, defence. Nanosonics has an active program for evaluating strategic partners for collaborative product development and market development. Interest from global corporations is growing.

During 2008, the Company has maintained a rigorous process to ensure appropriate management of its cash reserves. In closing the year with a cash balance of AUD24 million, I am pleased to state that the Company has substantial cash reserves to continue to invest in the growth of our healthcare product portfolio and a range of new opportunities for collaborative applications.

As part of this management process, the Board has maintained strong corporate governance principles in all the Company's dealings. I am also pleased to report that the Company has made significant progress in establishing an enhanced dialogue with financial market analysts, major investors, suppliers and partners. This becomes especially critical as the business evolves from a pure research and development company to a business driving global sales and marketing initiatives. In line with this strategy, the website continues to be developed to provide easier access to information about the Company; we see this as an ongoing process to enhance communication with an ever-growing range of shareholders both here and overseas.



We have set the goal of becoming an accredited "Green Company" in Fiscal Year 2009; this will be linked to compliance with the newly introduced National Greenhouse and Energy Reporting Act. The current product developments are not subject to any significant environmental or social regulations. It should be noted that the NanoNebulant technology is the most environmentally and OH&S friendly decontamination solution currently available on the market. The Company complies with all relevant environmental regulations, and there have been no known breaches of these regulations. The Board continues to ensure that appropriate systems are maintained to manage these social and environmental responsibilities.

On behalf of the Board I would like to take this opportunity to thank Dr David Fisher who took up the role of interim Executive Director in December 2007 and to Mr Chris Grundy, CFO, for acting as interim CEO. During this period, the Company successfully achieved the pivotal CE Mark approval for its launch device and commissioned the crucial tooling program which underpins its manufacturing roll-out. We also announced that Dr Ron Weinberger, the Company's General Manager – Innovation and Technology,

joined the Board early in Fiscal Year 2009. Ron brings strong technical and commercial experience to the Board which will ensure that the Company continues to drive the research and development of new products.

The Company continues to deliver to its commitments and I remain optimistic for the future of the business as it makes its global footprint and commercialises its product pipeline. It is pleasing to note that Nanosonics receives ongoing recognition for its technical achievements, the value of its intellectual property and know-how is regarded very highly by many leading corporations internationally who have detailed expertise in the field. The Company remains committed to rewarding its shareholders by delivering innovative and successful solutions to the problems of infection prevention to all communities worldwide.

Yours sincerely,

Maurie Stang
Non- Executive Chairman

Review of Operations

03

This Annual Report represents the first full year that Nanosonics has traded as a publicly listed entity. Significant progress has been made in the commercialisation of the initial launch product including the development of a launch strategy into specific target markets. The product is now on schedule for a targeted launch in Q3-F09, with major product enhancements including improved performance and manufacturing cost reductions. This report outlines the important achievements in Fiscal Year 2008 and the readiness for the impending product launch in Fiscal Year 2009.



Trophon™ EPR: A new standard in the disinfection of ultrasound probes

As the Company moves into Fiscal Year 2009 the major area of focus has been the successful launch of the Ultrasound Probe Disinfector. In 2008 a decision was made to develop a brand to represent the Product. The brand identity Trophon was developed. The Trophon Ultrasound Probe Disinfector was demonstrated at numerous European medical conferences and the new device design and brand were received very positively.

Extensive market development has already occurred within the initial launch area of Australia and New Zealand, creating strong market awareness and demand in anticipation of the product launch. Pre marketing in the European markets is increasing the awareness of this new standard in disinfection technology. This fits well with

these advanced healthcare markets which are moving towards stricter standards and automated technologies for disinfection and sterilisation of medical devices. The Original Equipment Suppliers (OEMs) are continuing to support the use of Trophon and it is expected that in Fiscal Year 2009 the Company will continue to build upon the existing relations with these companies, including co-exhibition at major trade shows in both Australasia and Europe. The process of appointment of distribution partners within these targeted countries is on track and expected to be finalised early in Q2-F09.

The Company anticipates a move into North America and Canada in early Fiscal Year 2010. An application for FDA regulatory approval (510k) is on target for lodgement prior to December 2008, with anticipated approval later in 2009 allowing marketing within North America, which represents a significant market. The Company has achieved CMDCAS ISO 13485:2003 from the Canadian regulators and has lodged an application to Health Canada to allow the marketing of the Trophon Ultrasound Probe Disinfector prior to the end of Q4-F09. Work has also commenced on positioning the product for launch into the Japanese market, with an anticipated launch in Fiscal Year 2010 pending appropriate regulatory approvals.

Nanosonics is currently developing marketing support materials in preparation for the product roll-out. A full scale marketing campaign will commence in conjunction with the product launch and will include road-shows, launch events, promotional activities, publicity, product reviews and articles for publication by key experts, and reference site testing. The development of the Trophon website has commenced and will include multi-lingual capabilities and is on target for launching in Q2-F09.

Advanced product design improves device performance and lowers manufacturing costs

Advanced product design

In December 2007, Nanosonics' Team laid out a path to market through an enhanced tooling and production process which captured the "voice of the customer". These changes not only relate to the device's performance and manufacturability but have enabled the production of a scalable platform which is transferable to new products and markets in the future.

Extensive testing has validated the superior materials compatibility of the NanoNebulant™ with the OEM's products. This has enabled the Company to achieve strong support from these companies who have contributed to the ongoing success of the materials compatibility programme. This strategically positions Nanosonics to achieve endorsement of the product as an approved system for disinfecting the major OEM's probes and for future opportunities relating to the reprocessing of other medical devices.

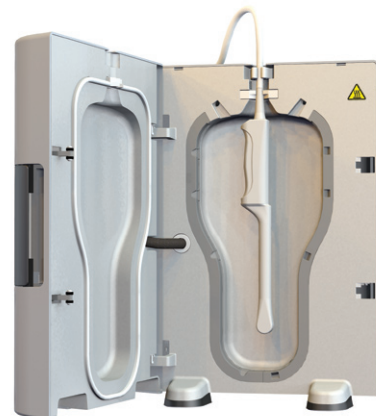
Meeting key regulatory milestones

Approval to Market in EU

August 2007 saw the comprehensive audit of Nanosonics Limited by the notified body TÜV Rheinland. The audit process resulted in the Company achieving CE Mark for the Trophon Ultrasound Probe Disinfector and an updated Quality System Certificate for the Company's Quality Management System. This now enables the Company to market the product across the European Union member countries.

TGA Australia

The Company has lodged a Conformity Assessment application with the Australian Therapeutic Goods Administration and anticipates approval towards the end of Q2-F09. This accelerated approval submission will allow Nanosonics to enter the Australian market segment ahead of schedule.



Nanosonics' accelerates its Regulatory Strategy for the Trophon Ultrasound Probe Disinfector, fast-tracking submissions with Australian and Canadian Authorities and commencing the FDA process.

FDA-America and Health Canada

In Fiscal 2008 the Company was awarded CMDCAS ISO13485:2003 certification for the Trophon Ultrasound Probe Disinfector as required by Health Canada. This is the first step in the process of registering the product which the Company anticipates will be finalised towards the end of the Q4-F09. Canada is an attractive market for Nanosonics due to the strong recognition for the need for proper and standardised reprocessing methods of ultrasound probes. The Company believes that the early registration in this market will lead to both significant sales in Canada and a strong stepping stone into the lucrative US ultrasound market. The Company is on track for a 510k submission to the American FDA which is required prior to marketing of product in North America. It is anticipated that approval to market should be gained in 2009.

Realisation of Manufacturing and Logistics

A low volume manufacturing facility was established early in 2008 within existing premises in Alexandria. This includes an assembly/production area, warehouse, offices and service room. Procedures and instructions were developed in accordance with the regulatory requirements of ISO13485. The facility was audited by TÜV Rheinland in February 2008 and was certified as compliant in May 2008.

An extensive tooling program was developed and executed in Q3-F08. This involved a number of manufacturing processes. An integrated approach was taken for the tooling program and supply of raw material in order to obtain highest quality components and services while optimising costs and minimising delivery times.

World class manufacturing and production processes have been implemented. This includes procedure development, process improvement, operations and

logistics. The design, installation, verification and validation of a complete manufacturing test system have met the most stringent manufacturing requirements. Regional based business partners will provide a range of services such as logistics, servicing and repair, manufacture and distribution of consumables.

Growing our business: Product Pipeline and Intellectual Property

Research and development activities progressed well during the year, this included work on the disinfection of lumened and non-lumened endoscopes. This potential market represents a global opportunity in excess of AUD1 billion. Materials compatibility evaluations have been undertaken in partnership with a major endoscope manufacturer. These initial results demonstrate the superior materials compatibility of the proprietary NanoNebulant technology as its application moves from the initial product into future product families. The Company continues to attract significant interest from leading healthcare corporations regarding potential collaboration and distribution of a range of products based on this proprietary technology.

Nanosonics' IP portfolio includes 10 patent families that are being prosecuted globally, with an additional 3 new applications lodged in Q4-F08. The combination of these patented features within the Trophon Ultrasound Probe Disinfector has resulted in Nanosonics developing the world's first fully automated aerosol disinfector of medical equipment. Nanosonics is focussed on extending the Trophon product range into a number of lucrative healthcare opportunities whilst identifying commercial opportunities in other areas.



Cash Flow

During Fiscal Year 2008 the Company invested AUD7.6 million into research and development and commercialisation of the Trophon product from internal cash reserves and Government grants. These investments position the Company well for the continued development of a range of customer focused solutions. The cash position at the end of Fiscal Year 2008 was AUD24 million.

The people behind Nanosonics

As part of the Company's commitment to its staff, Fiscal Year 2008 has seen significant investment into the education and professional development of its Team. This has included the promotion of Mr Arjang Safa to General Manager, Manufacturing. Arjang brings a wealth of knowledge in the manufacturing processes to the Company as it gears up for the next phase of its growth. Future initiatives continue to focus upon the identification and education of high potential future leaders.

The Company is committed to providing a safe and stimulating working environment for its staff, with its dedicated OH&S team focused upon the continued improvement of the safety and environmental standards within the business. The Company is fully compliant with the OH&S Act 2000 and the Trophon EPR will enhance the environmental credentials of the Company.

The Company is well positioned for its future growth in both the soon to be released Trophon product, as well as the rapid move into adjacent market areas with the existing NanoNebulant technology. The capabilities and commitment of the Team will continue to differentiate the Company as it moves from a research and development focused company into a Global entity.

David Radford
Executive Director and CEO

Sydney
20 August 2008

Directors' Report

07

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 2008.

This report includes the Review of Operations on pages 3 to 6, the Information on Directors and Secretary (including Interests of Directors) on pages 14 to 16 and the Remuneration Report on pages 19 to 26.

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.

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

Results of Operations

Revenue for the year amounted to \$3,055,131 (2007: \$2,865,087) and the net operating loss before and after income tax amounted to \$7,176,556 (2007: \$5,703,524). The Group incurred net cash outflows for the financial year of \$7,681,797 (2007: \$5,298,051 excluding net proceeds from the issue of shares) which were applied to on-going business development and operations. Cash reserves at 30 June 2008 amounted to \$24,224,635 (2007: \$31,906,432). Other information on the operations by the Group and its business strategies and prospects is discussed in the Review of Operations on pages 3 to 6 of this Annual Report.

Significant changes in the state of affairs

Incorporation of German Subsidiary

On 21 June 2007, the Group incorporated a wholly-owned subsidiary, Nanosonics Europe GmbH, in Hamburg,

Federal Republic of Germany, with an initial share capital of EU25,000. The subsidiary provides a regional base and representative office for the Group's operations in Europe, which presently comprise the development of sales and distribution relationships and networks in preparation for the launch of the Group's first product in Europe in 2009.

On 30 June 2007, the 25,000 shares in Nanosonics Europe GmbH had not been formally assigned to Nanosonics Limited and the subsidiary had not commenced operations. Accordingly, the subsidiary was not included in the consolidated results of the Group as at and for the year ended 30 June 2007. Nanosonics Europe GmbH commenced operations in August 2007 and the results of its operations have been included in the consolidated annual financial results for the Group from that date.

Listing rule 1.3.2(b)

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

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

Dividends – Nanosonics Limited

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2008. No dividends were proposed, declared or paid during the financial year (2007: Nil).

The immediate purpose of the Company is to complete the development and commercialisation of its emerging and 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 2008 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 programmes 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 3 to 6.

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.

Directors' and Committees of the Board

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

Board of Directors' Nanosonics Limited

Maurie Stang, Non-Executive Chairman
 David Radford, Executive Director,
 CEO (appointed 16 June 2008)
 Geoff Marshall, Executive Director,
 CEO (resigned 14 December 2007)
 David Fisher, Non-Executive Director¹
 Ron Weinberger, Executive Director
 (appointed 2 July 2008)
 William Widin, Non-Executive Director

Audit and risk management committee

William Widin, Chairman
 David Fisher
 Maurie Stang

Governance and nomination committee

William Widin, Chairman from 14 December 2007¹
 David Fisher, Chairman to 14 December 2007¹
 Maurie Stang

Remuneration committee

William Widin, Chairman from 14 December 2007¹
 David Fisher, Chairman to 14 December 2007¹
 Maurie Stang

¹ Dr David Fisher was appointed Interim Executive Director on 14 December 2007, prior to which he was a Non-Executive Director and Chairman of the Governance and Nomination Committee and of the Remuneration Committee. He reverted to being a Non-Executive Director upon the appointment of Mr David Radford as Executive Director on 16 June 2008. The Company's Policy on Corporate Governance is that the Chairman of each of the Committees of the Board should be an independent director. Accordingly, on 14 December 2007 Mr William Widin was appointed Chairman of the Governance and Nomination Committee and of the Remuneration Committee.

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

(a) Directors

Mr David Radford was appointed a Director and CEO on 16 June 2008.

Dr Ron Weinberger was appointed a Director on 2 July 2008. In accordance with the Constitution, Mr Radford and Dr Weinberger retire as Directors at the next general meeting and, being eligible, offer themselves for re-election.

Mr Geoff Marshall resigned as a Director and CEO on 14 December 2007.

Mr Maurie Stang, who was re-elected as a Director at the 2007 AGM, Dr David Fisher, who was re-elected as a Director at the 2006 AGM, and Mr William Widin, who was re-elected as a Director at the 2007 AGM, all continue in office as Directors.

(b) Secretaries

Mr Radek Mierzejewski resigned as joint Company Secretary on 17 July 2007.

Mr Robert Waring resigned as joint Company Secretary on 20 February 2008.

Mr Chris Grundy was appointed Company Secretary on 4 June 2007 and continues in office.

Meetings of Directors

The number of Directors' meetings, (including meetings of the Committees), held during the year ended 30 June 2008, 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	10	2	1	1	1	3	3
David Radford ²	0	0						
David Fisher	12	10	2	2	1	1	3	3
William Widin	12	11	2	2	1	1	3	3
Geoff Marshall ³	7	7						

² David Radford was appointed a Director and CEO on 16 June 2008.

³ Geoff Marshall resigned as a Director and CEO on 14 December 2007.

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 2008.

Share options granted

During the financial year and to the date of this Report, the Company granted, for no consideration, unquoted options over unissued ordinary shares in Nanosonics Limited as follows:

	Date options granted	Issue price of shares	Number of options	Expiry date
General Options	17 July 2007	\$0.20	65,000	17 July 2011
General Options	17 July 2007 ¹	\$0.30	50,000	17 July 2011
Employee Options	17 July 2007	\$0.75	250,000	17 July 2011
Employee Options	30 November 2007	\$0.75	80,000	30 November 2011

The share options granted have been valued at grant date using a Black-Scholes model. The total value of the Employee Options granted is allocated to remuneration over the vesting period. A share options reserve is created as part of shareholders' equity. The amount of \$61,920 (2007: \$526,840) was taken to the share options reserve in respect of options granted in the current financial year.

Shares issued on the exercise of options

The following ordinary shares of Nanosonics Limited were issued during the year ended 30 June 2008 and to the date of this report on the exercise of options granted under the Nanosonics Limited General Option and Employee Share Option Plans. No amount was unpaid on any of the shares so issued.

	Date options granted	Issue price of shares	Date shares issued	Number of shares issued
General Options	April 2006	\$0.30	July 2007	216,680
General Options	July 2001	\$0.20	October 2007	547,700
Total shares issued				764,380

Shares under option

Unissued ordinary shares of Nanosonics Limited under option at the date of this report are as follows:

Date options granted	Issue price of shares	Number of options	Expiry date
April 2006	\$0.30	7,141,720	30 September 2008
April 2006	\$0.20	154,840	30 September 2008
April 2007	\$0.20	3,455,000	17 May 2011 ⁴
April 2007	\$0.75	1,302,000	17 May 2011 ⁴
April 2007	\$0.20	1,700,000	17 May 2011
July 2007	\$0.20	50,000	17 July 2011
July 2007	\$0.30	50,000	17 July 2011
July 2007	\$0.20	15,000	17 July 2011
July 2007	\$0.75	250,000	17 July 2011 ⁴
November 2007	\$0.75	80,000	30 November 2011 ⁴
Total shares under option		14,198,560	

⁴ Denotes options issued under the Employee Share Option Plan which expire on the earlier of their expiry date or 90 days after voluntary termination of the employee's employment.

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.

As noted above, a total of 7,296,560 options expire on 30 September 2008. The options are fully vested and, if all are exercised prior to their expiry date; the Company will issue 7,296,560 new shares upon receipt of proceeds of \$2,173,484.

Intention to grant options to acquire shares

Subject to the approval of the members in general meeting, the Company intends to grant 1,500,000 options to acquire fully paid ordinary shares in the Company to Mr David Radford, CEO and Executive Director, as follows:

- 500,000 options to be granted upon the approval of the members at an exercise price of \$0.30 per share and with vesting dates calculated from 16 June 2008; and

- 500,000 options to be granted at the completion of 12 months service with the Company at an exercise price of \$0.30 per share; and
- 500,000 options to be granted at the completion of 24 months continuous employment with the Company at 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.

Subject to the approval of the members in general meeting, each of the abovementioned options will: be issued and allotted to Mr Radford or his nominee and be issued for no cash consideration; be issued and allotted in accordance with clause 5 of Nanosonics' ESOP; lapse in accordance with clause 7 of the ESOP; vest over three years in accordance with the ESOP; and otherwise for options under points 1 and 2 above be granted and capable of exercise in accordance with the terms and conditions of the ESOP and the Listing Rules of ASX Limited.

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*.

Auditor

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

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	Consolidated	
	2008 \$	2007 \$
1 Audit services		
Audit and review of financial reports	21,216	16,000
Other audit work under the Corporate Act 2001	–	–
Total remuneration for audit services	\$21,216	\$16,000
2 Non-audit services		
Audit-related services		
Audit of regulatory returns	2,000	3,900
Other Services	–	475
Total remuneration for audit-related services	\$2,000	\$4,375
Taxation services		
Tax compliance services	540	650
Total remuneration for taxation services	\$540	\$650
Total remuneration for non-audit services	\$2,540	\$5,025

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 27 of this Report.

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.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums of \$39,146 (2007: \$36,486) to insure the Directors and Secretaries and Key Management Personnel of the Company.

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.

This Report, which includes the Review of Operations (on pages 3 to 6), the Information on Directors and Secretary (on pages 14 to 16 and the Remuneration Report (on pages 19 to 26) is made and signed in accordance with a resolution of Directors.



William Widin

Director

Sydney

20 August 2008

Information on the Directors and Secretary

14

Directors

Maurie Stang

Non Executive Chairman

Appointed:

14 November 2000, re-elected 26 November 2007.

Experience and Expertise

Mr Stang was Executive Director and Chairman of Nanosonics Limited from 14 November 2000 to March 2007. He has been Non Executive Director and Chairman since March 2007 to the date of this Report. Mr Stang co-founded and is a director of a number of leading healthcare distribution and biotechnology companies. His business activities and experience span the successful commercialisation of intellectual property across global markets. He has a track record of launching and commercialising a broad range of medical and dental devices worldwide.

Other current Directorships

Non-executive Chairman of Aeris Environmental Limited (Director since 2002)

Former Directorships in last 3 years

No ASX listed companies.

Special responsibilities

Chairman of the Board

Member of the Governance and Nomination Committee

Member of the Audit and Risk Management Committee

Member of the Remuneration Committee

Related parties

Details of transactions in the financial year ended 30 June 2008 between the Group and entities which are considered to be Director-related parties are set out in note 23 to the Financial Report on page 54.

David Radford BSc (Hons), MBA, MAICD

Executive Director

Appointed: 16 June 2008.

Experience and Expertise

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. He is also responsible for the Company's investor relations.

Mr Radford has over 20 years' international business experience in the medical device and healthcare industries. He has held senior positions within GE Healthcare (including Ultrasound and Clinical Systems Services), Brambles Australia and Cobe Laboratories. David has skills in marketing, business strategy, change management, organisational structure and has been involved in the successful global roll-out of new products and services in Australia and Asia. Mr Radford is qualified with a BSc Honours degree in Applied Biological Sciences from Bristol Polytechnic (UK), specialising in microbiology, and an Executive Masters of Business Administration degree from the Australian Graduate School of Management.

Other current Directorships and former Directorships in last 3 years

No ASX listed companies.

Special responsibilities

Chief Executive Officer

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

Non Executive Director

Appointed: 30 July 2001, re-elected 13 December 2006.

Experience and Expertise

Dr Fisher has over 25 years' experience, including substantial operating experience in the biotechnology

and healthcare industry in Australia and overseas. He held senior positions with Pharmacia AB in Sweden and was CEO in Australia of Peptech Limited (now Arana Therapeutics Limited).

Other current Directorships

No ASX listed companies. Director of Brandon Capital Partners Pty Ltd, a venture capital firm that specialises in the life sciences sector. Director of Australian Biomedical Fund No.1 Ltd, Australian Biomedical Fund No.2 Ltd and Australian Biotechnology and Healthcare fund No.3 Ltd, all of which are investors in the Company (see page 68 of this report).

Former Directorships in last 3 years

No ASX listed companies.

Special responsibilities

Member of the Governance and Nomination Committee (Chairman until 14 December 2007)

Member of the Remuneration Committee (Chairman until 14 December 2007)

Member of the Audit and Risk Management Committee

Ron Weinberger BSc (Hons), PhD Executive Director

Appointed: 2 July 2008.

Experience and Expertise

Dr Weinberger has executive responsibility for all of Nanosonics' discovery and development programs, including the portfolio of intellectual property. Ron joined Nanosonics in August 2004 and has over 20 years' experience in the medical research and biotechnology arena. He has proven experience in negotiating, developing, designing and managing large scale R&D programs with a strong commercial perspective. Dr Weinberger is co-inventor of several of the key technology patents that underpin the proprietary Nanosonics process as well as platform

technology patents in the diagnosis of bacterial infections. Dr Weinberger is qualified with a BSc (Hons) degree in pharmacology and a PhD degree in medical biochemistry and he has authored over 50 peer-reviewed and invited manuscripts.

Other current Directorships and former Directorships in last 3 years

No ASX listed companies.

Special responsibilities

General Manager – Innovation and Technology
Chairman of the Advisory Board

William Widin BSc (Econ) (Hons), FCA, FCPA Non Executive Director

Appointed: 8 March 2007, re-elected 26 November 2007.

Experience and Expertise

Mr Widin has over 25 years' of public practice as a chartered accountant. He participated in the establishment and management of such businesses as Mediservice Clinics, a major chain of medical centres, and Statewide Roads, which designed, constructed and operated the M4 Motorway in Sydney's west.

Other current Directorships and former Directorships in last 3 years

No ASX listed companies.

Special responsibilities

Chairman of the Audit and Risk Management Committee
Chairman of the Governance and Nomination Committee
Chairman of the Remuneration Committee

Related parties

Details of transactions in the financial year ended 30 June 2008 between the Group and entities which are considered to be Director-related parties are set out in

note 23 to the Financial Report on page 54.

Interests of Directors

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

Directors	Ordinary shares	Options over ordinary shares
Maurie Stang ^{1,2}	28,377,000	–
David Radford ³	87,000	–
David Fisher ^{1,4}	944,426	–
Ron Weinberger	–	1,175,000
William Widin ¹	1,785,000	278,340

Secretary

Chris Grundy BCom, CA, MAICD

Appointed: 4 June 2007.

Experience and Expertise

Mr Grundy is qualified as a Company Secretary, with a Graduate Diploma in Applied Corporate Governance and 6 year's experience, including an ASX top-200 company. Details on Mr Grundy, who is also Chief Financial Officer, are included in Information on Key Management Personnel on page 17.

- 1 Certain shares and share options owned or controlled by Directors Maurie Stang, David Fisher and William Widin have been classified as restricted securities by the Australian Securities Exchange (ASX) in terms of the ASX Listing Rules whereby the holders agreed that, subject to certain limited conditions known as the "cash formula", they will not dispose of or encumber the shares until the second anniversary of the date of commencement of official quotation on 17 May 2007. The "cash formula" is described on page 18 of the Company prospectus dated 2 April 2007, a copy of which is available on the Company's website or from the Company Secretary.
- 2 Mr Maurie Stang (*Non-Executive Chairman*) and Mr Bernard Stang each have a relevant interest in the holdings of the other's shares as they are associates of each other for the purposes of section 15 of the *Corporations Act 2001*. At the date of this report, Mr Bernard Stang held 28,552,000 shares in the Company, all of which have been classified as restricted securities per note 1 above.
- 3 The Company intends to grant 1,500,000 options to Mr David Radford - for details refer to the Directors' Report on page 11
- 4 Dr David Fisher is a director of Brandon Capital Management Pty Limited (Brandon), which manages three investment funds independent of Brandon (each a "Fund") that in aggregate held 8,343,789 shares at the date of this report. Whilst Brandon is expected to and does make recommendations to the boards of management of these Funds, neither Dr Fisher nor Brandon is able to control decisions regarding any Fund's shares. Accordingly, the Directors advise that Brandon does not have any relevant interest in any of the shares held by any Fund and they are not included in Dr Fisher's interests stated above.

Information on Key Management Personnel

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David Radford BSc (Hons), MBA, MAICD Chief Executive Officer

Appointed: 16 June 2008.

Details on Mr Radford, who is an Executive Director, are included in Information on the Directors on page 12.

Chris Grundy BCom, CA, MAICD Chief Financial Officer and Company Secretary

Appointed: 4 June 2007.

Mr Grundy is responsible for overall financial management, company secretarial practice and investor relations. For the period December 2007 to June 2008, Mr Grundy was the Company's acting CEO. Mr Grundy has fifteen years' experience with Bayer and other large Australian companies in medical devices, diagnostics, pharmaceuticals and complementary medicines, including CFO and Company Secretary of an ASX top-200 company. He has held 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 with a BCom degree and as a Chartered Accountant, and he has a Graduate Diploma in Applied Corporate Governance.

Ron Weinberger BSc (Hons), PhD General Manager – Innovation & Technology

Appointed: 9 August 2004.

Details on Dr Weinberger, who is an Executive Director, are included in Information on the Directors on page 13.

Ole Jochen Stockhausen Dipl.VWL, CBA, MBA General Manager – Global Marketing & Business Development

Appointed: 25 October 2004.

Mr Stockhausen is responsible for marketing, sales and business development, new market opportunities and the development of channels for the commercialisation of the Company's core technologies, including horizontal and vertical growth opportunities and relationship management. He has international experience in Europe, Asia and North America. His responsibilities in the previous thirteen years include the commercial development of small and mid-size medical and biotechnology companies, including Genescan Europe AG and Igeneon AG. Mr Stockhausen is qualified with a Diploma in Economics, a Diploma in Financial Analysis and a Masters of Business Administration degree.

Rachael Moore MEng General Manager – Product Development

Appointed: 27 March 2006.

Ms Moore is responsible for implementation and management of the product development function, comprising prototype development and construction, product design verification and validation.

She has worked in new product development for more than ten years, with the last nine in the medical devices industry. Ms Moore holds multiple patents in medical device design and has skills in the planning and execution of medical device development programmes. She has specialist knowledge in mechanical engineering, industrial design, human factors and ergonomics.

Ms Moore is qualified with a Masters of Engineering degree in Product Design Engineering from Glasgow University (UK).

John Murtagh BEng
General Manager – Business Systems
and Regulatory affairs

Appointed: 24 July 2006.

Mr Murtagh is responsible for developing and implementing the Company's regulatory and quality management strategies and systems, including the management of product submissions, product releases and product conformity, together with regulatory compliance for all internal and external operations. He has extensive experience in the medical device industry as the Quality Manager and Senior Project Manager with two leading Australian medical device companies, ResMed Inc and Cochlear Ltd. Mr Murtagh is qualified with a Bachelors Degree in Electronic and Electrical Engineering, with additional qualifications in Quality Systems Auditing and an Associate Certificate in Project Management from the George Washington University.

Arjang Safa BTech
General Manager – Manufacturing

Appointed: 1 January 2008.

Mr Safa is responsible for the coordination of operational activities to ensure the Company's products are manufactured and supplied in line with demand and for the cost-optimisation of all product families. He has fifteen years experience in the complete design or improvement of operations and manufacturing processes for many complex technological innovations. He has 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 BTech (Manufacturing Engineering) degree and an associate diploma in Mechanical Engineering.

Remuneration Report

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The Remuneration Report is 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 includes 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 is essential to achieving a competitive advantage and sustainable future. Our remuneration philosophy is to proactively attract, motivate and retain key talent in line with the following criteria:

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

Remuneration Committee

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

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

Objective of the Remuneration Policy

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

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

b) Directors

Non-Executive Directors are paid an annual fee for their services on the Board and Committees of the Board. The total annual fee payable to a non-Executive Director is determined on a total cost basis comprising cash, superannuation and securities. The aggregate amount of remuneration that may be paid to all non-Executive Directors is set at \$500,000 which may be divided among the non-Executive Directors in such a way as the Directors may determine.

The remuneration of the Chief Executive Officer, or any other Director appointed to an executive office, is fixed by the Directors. Executive Directors are not separately remunerated for their positions as Directors.

c) Advisory board

Members of the Advisory Board are paid an annual fee for their services. The total annual fee payable to a member of the Advisory Board 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 executive remuneration are set out in Part 5 of this report.

Fixed Remuneration

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

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

e) Short term incentive (STI) scheme

The Company has a short-term incentive scheme whereby senior executives and staff can earn cash payments varying from 7% to 25% of their base salaries, subject to the achievement of certain defined key performance indicators and overall company performance.

f) Share-based compensation plans

The Company has three share-based compensation plans, each designed to fulfil aspects of the Company's remuneration policy directed to the attraction, motivation

and retention of the experience and skills required for the achievement of strategic corporate objectives and the creation of value for shareholders. Summary details of each plan and how it operates are provided in section 3 Share-based compensation below. Specific details of each of the three share-based compensation plans are available on the Company's website.

2. Service Agreements

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

3. Share-based compensation

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

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

3.1 Nanosonics Employee Share Option Plan (“ESOP”)

Options to acquire shares in Nanosonics Limited are granted under the ESOP which was approved by the Directors on 2 April 2007. Under the plan, participants are granted options for no consideration and the options carry no dividend or voting rights. The exercise price of options is determined by the Board.

Participation in the plan is at the Board's discretion and no individual has a contracted right to participate in the plan or to receive any guaranteed benefits. ESOP options vest only if the employee is employed by the Company at the end of each vesting period.

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.

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

To the date of this report no Shares have been granted under either the EESP or the DESP. Further details of the EESP and DESP are as follows:

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.

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.

Details of shared based compensation included in Director and Key Management Personnel remuneration are set out on page 22 and 23 in Note 28 to the Financial Report on page 60.

4. Directors and Key Management Personnel

All the Directors and Key Management Personnel named in this report held office throughout the years ended 30 June 2008 and 30 June 2007, except for:

Directors

David Radford Executive Director and CEO (Appointed 16 June 2008)

Geoff Marshall Executive Director and CEO (Resigned 14 December 2007)

Key Management Personnel

Arjang Safa General Manager Manufacturing and Supply Chain (Appointed 1 January 2007)

Chris Grundy Chief Financial Officer and Company Secretary (Appointed 4 June 2007)

John Murtagh General Manager Business Systems and Regulatory Affairs (Appointed 24 July 2006)

5. Remuneration of Directors and Key Management Personnel

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the five highest remunerated Company executives are set out below. No Directors or Key Management Personnel were remunerated by any other company in the Group.

Directors	Primary			Post-employment	Equity compensation	Other compensation	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %	Short term incentive bonus		
	Salary and fees	STI cash bonus (a)	Non monetary benefits							Superannuation benefits	Value of options (Section 6)	Termination benefits
Non-Executive Directors												
Maurie Stang	2008	50,004					\$50,004					
	2007	16,667					\$16,667					
David Fisher ¹	2008	93,202		8,281			\$101,483					
	2007	11,009		991			\$12,000					
William Widin ²	2008	37,727		3,395			\$41,122					
	2007	11,009		991			\$12,000					
Executive Directors												
David Radford ³	2008	5,235		471			\$5,707					
	2007											
Geoff Marshall ⁴	2008	118,730	24,000	9,492	0 ⁴	79,619	\$231,841	19%	-78%	80%	20%	
	2007	223,125	46,631	12,686	25,885		\$350,017	17%	8%	80%	20%	

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

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

1 For a part of the 2008 year, from 14 December until 16 June, David Fisher served as interim Executive Director. His total remuneration as an Executive Director was \$777,775 and is included in the total for 2008 shown above. The remainder of his remuneration for the year, amounting to \$237,081, was for his services as a non-Executive Director.

2 William Widin was appointed on 8 March 2007.

3 David Radford was appointed on 16 June 2008.

4 Geoff Marshall resigned on 14 December 2007. All options previously granted to him were unvested and all lapsed at that date.

5. Remuneration of Directors and Key Management Personnel (continued)

Key Management Personnel	Primary		Post-employment	Equity compensation	Other compensation	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %	Short term incentive bonus	
	Salary and fees	STI cash bonus (a)							Non monetary benefits	Superannuation benefits
Key Management Personnel										
Ron Weinberger	2008	156,779	33,108	12,570	48,993	\$251,450	20%	42%	100%	0%
	2007	117,225	23,500	12,665	17,700	\$188,932	16%	10%	100%	0%
Ole Stockhausen	2008	129,682	29,430	11,179	24,708	\$195,000	21%	26%	100%	0%
	2007	100,252	20,358	10,855	9,071	\$140,536	18%	7%	100%	0%
Rachael Moore	2008	129,500	29,430	11,175	11,246	\$181,351	21%	14%	100%	0%
	2007	117,543	22,346	12,583	5,045	\$157,517	17%	3%	100%	0%
John Murtagh ⁵	2008	127,839	25,296	10,846	10,046	\$174,027	18%	14%	100%	0%
	2007	105,047	31,071	12,251	4,628	\$152,997	26%	3%	100%	0%
Chris Grundy ⁶	2008	150,636	40,772	13,820	4,667	\$209,895	25%	11%	100%	0%
	2007	6,881	1,349			\$8,230	20%	0%	100%	0%
Arjang Safa ⁷	2008	73,183	2,538	5,501	803	\$82,025	3%	6%	100%	0%
	2007					\$0			100%	0%

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

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

⁵ John Murtagh was appointed on 24 July 2006.

⁶ Chris Grundy was appointed on 4 June 2007.

⁷ Arjang Safa was appointed on 1 January 2008.



6. Fair value of options

The fair values of options are calculated at grant date using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options market conditions have been taken into account in both the current and prior periods. Comparative information was not restated as market conditions were already included in the valuation.

The following factors and assumptions were used in determining the fair value on grant date of options granted to Directors and Key Management Personnel which were unexpired on 30 June 2008:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Value of option
ESOP	30 November 2007	30 November 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	April 2007	17 April 2011	\$0.375 ⁸	\$0.75	45.73%	6.17%	\$0.155
ESOP	April 2007	17 April 2011	\$0.375 ⁸	\$0.20	45.73%	6.17%	\$0.355

⁸ 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. Analysis of share-based compensation granted as remuneration

The vesting profiles as at 30 June 2008 of options granted as long-term incentive remuneration to each Director and each of the key management personnel are detailed below.

Options granted	Type of option	Number granted	Date granted	Number vested	Number forfeited	Number vesting in future financial years ⁹		
						2009	2010	2011
2008								
Directors								
–	–	–	–	–	–	–	–	–
Key Management Personnel								
Arjang Safa	ESOP@\$0.75	80,000	November 2007	–	–	26,400	26,400	27,200
Chris Grundy	ESOP@\$0.75	250,000	July 2007	–	–	82,500	82,500	85,000
2007								
Directors								
G Marshall	ESOP@\$0.75	150,000	Apr 2007	–	150,000 ¹⁰	–	–	–
G Marshall	ESOP@\$0.20	1,500,000	Apr 2007	–	1,500,000 ¹⁰	–	–	–
Key Management Personnel								
R Weinberger	ESOP@\$0.75	175,000	Apr 2007	57,750	–	57,750	59,500	–
R Weinberger	ESOP@\$0.20	1,000,000	Apr 2007	330,000	–	330,000	340,000	–
O Stockhausen	ESOP@\$0.75	125,000	Apr 2007	41,250	–	41,250	42,500	–
O Stockhausen	ESOP@\$0.20	500,000	Apr 2007	165,000	–	165,000	170,000	–
R Moore	ESOP@\$0.75	290,000	Apr 2007	95,700	–	95,700	98,600	–
R Moore	ESOP@\$0.20	200,000	Apr 2007	66,000	–	66,000	68,000	–
J Murtagh	ESOP@\$0.75	290,000	Apr 2007	95,700	–	95,700	98,600	–
J Murtagh	ESOP@\$0.20	175,000	Apr 2007	57,750	–	57,570	59,500	–

⁹ In terms of the rules of the ESOP, options will vest only if the holder is an employee of the Group on the vesting date.

¹⁰ Geoff Marshall resigned on 14 December 2007. All options previously granted to him were unvested and all lapsed at that date.

8. Analysis of movements in options

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

	Value of options		
	Granted in year (a) \$	Exercised in year (b) \$	Forfeited in year (c) \$
2008			
Directors			
G Marshall	–	–	775,440 ¹¹
Key Management Personnel			
C Grundy	70,000	–	–
A Safa	24,086	–	–
2007			
Directors			
G Marshall	372,750	–	–
Key Management Personnel			
R Weinberger	254,875	–	–
O Stockhausen	130,625	–	–
R Moore	72,650	–	–
J Murtagh	66,650	–	–

¹¹ Geoff Marshall resigned on 14 December 2007. All options previously granted to him were unvested and all lapsed at that date.

a The value of options granted in the year is their fair value calculated at grant date using a Black-Scholes model – refer Section 6 above. The total value of the options granted is included in the table above. This amount is assessed and allocated to remuneration over the vesting period.

b 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.

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

Auditor's Independence Declaration



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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2008 there have 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. D. Nicholaeff
Partner

Signed at Sydney on 20 August 2008

UHY Haines Norton
Chartered Accountants

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

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

Management and oversight

Role of the Chairman

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

Role of the Board

Under the leadership of the Chairman, the role of the Board is to provide strategic guidance to the Group and to provide effective oversight of its management for the benefit of shareholders and other stakeholders. The Board acts on behalf of shareholders and is accountable to the shareholders for the overall strategy, governance and

performance of the Group. The Board retains ultimate authority over the management of the Group; however day-to-day management of the Group's affairs and the implementation of its strategies are formally delegated by the Board to the Chief Executive Officer (CEO) and senior executives, as set out in detail in the Group's Corporate Governance Charter.

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

Committees of the Board

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

recommendations. The Board intends that each Committee has an independent director appointed as its Chairman. The membership and performance of Board Committees is assessed at least once every year by those Committees and the Board.

Currently there are three Committees of the Board: the Governance and Nomination Committee, the Audit and Risk Management Committee and the Remuneration Committee. Summaries of the roles and responsibilities of each of the current Committees are provided in this Corporate Governance Statement. Details of Directors' attendances at meetings of the Committees are shown on page 9 of this Annual Report.

Advisory Board

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

Senior Executives

The Group sets responsibilities and performance expectations for all senior executives, as described on pages 14 to 18 of this Annual Report. The Nanosonics Performance and Development Programme requires peer reviews and individual appraisals by a Director at least annually for all senior executives. In accordance with that programme, peer reviews and individual appraisals of the performance of all senior executives were undertaken by the interim Executive Director during the year under review in this Annual Report.

Structure of the Board

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

- Mr Maurie Stang is Non-Executive Chairman: appointed a Director 14 November 2000, re-elected 26 November 2007.
- Mr David Radford is the Chief Executive Officer: appointed 16 June 2008.
- Dr David Fisher is a Non-Executive Director: appointed 30 July 2001, re-elected 13 December 2006.
- Dr Ron Weinberger is an Executive Director: appointed 2 July 2008.
- Mr William Widin is a Non-Executive Director: appointed 8 March 2007, re-elected 26 November 2007.

Details of each Director, including their qualifications and experience, are set out in the Information on Directors on pages 14 and 16 of this Annual Report.

Directors' independence

- Mr M Stang is not considered to be an independent Director as he is a founder of the Company; he held executive office in the Company until March 2007; both he and Mr Bernard Stang, with whom he is associated, are major shareholders of the Company (see page 68 of this Annual Report) and Mr M Stang is a director and/or shareholder of companies with which the Company had significant transactions during the year (see Note 23 on page 54 of this Annual Report).
- Mr Radford and Dr Weinberger are not considered to be independent Directors as they are executives of the Company.
- Dr Fisher is considered to be an independent Director, except that he served as interim Executive Director for the period 14 December 2007 to 16 June 2008.
- Mr Widin is considered to be an independent Director.

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

Governance and Nomination Committee

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

The performance of the Board, its Committees and the Directors was evaluated by the Chairman during the year.

Ethical and responsible decision making

Code of Ethics

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

Securities Trading Policy

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

Integrity in financial reporting

Audit and Risk Management Committee

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

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

Timely and balanced disclosure

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

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

Website

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

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.

Corporate information

The Group's corporate information, including reports and media releases, governance and shareholder information, is available from its website and includes:

- Announcements to the ASX
- Constitution
- Corporate Governance Charter
- Advisory Board
- Audit and Risk Management Committee Charter
- Code of Ethics
- Governance and Nomination Committee Charter
- Securities Trading Policy
- Remuneration Committee Charter
- Information Disclosure Policy
- Terms of Appointment of non-Executive Director
- Disclosure Policy
- Risk Management Policy

Engagement with shareholders

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

Risk management

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

The Board requires the Group's Executive Management, led by the CEO, to design, implement and review an

effective risk management and internal control system. Executive Management is required to report via the CEO to the Board whether the Group's material business risks are being managed effectively.

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

Financial systems and compliance

The Chief Executive Officer and Chief Financial Officer have jointly confirmed to the Board that the declaration provided in the 2008 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.

Fair and responsible remuneration

The Group's remuneration philosophy and policies are set out in the Remuneration Report on page 19 of this Annual Report. The Remuneration Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered.

Remuneration Committee

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

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

The Company distinguishes the structure of non-executive Directors' remuneration from that of executive Directors and senior executives. Non-executive Directors' remuneration does not include any retirement benefits other than contributions to their nominated superannuation funds. Details of the respective remuneration structures are set out in Section 1 of the Remuneration Report on page 19 of this Annual Report.

Intellectual Property

As a core strategy for growth and success, Nanosonics holds and continues to develop platform technologies as well as a substantial body of proprietary technology and knowledge. The Company's intellectual property, including product and platform technologies, is protected by a combination of patents, trade marks and confidentiality agreements.

The Company presently has a portfolio of ten patent families being prosecuted in Australia and internationally. Each patent family provides Nanosonics with a fundamental and enduring competitive advantage in aerosol disinfection and sterilisation. Patents protect critical features of the Company's first products to market and envisaged future developments, including the consumables, the platform process, and the mechanisms of aerosol measurement. The Company continuously develops its patent portfolio, with three new patent applications added in the year to 30 June 2008.

Patent Family	Description	Status (all regions)	Priority Date
Improved Disinfection	Aerosol disinfection using liquid disinfectant combined with a surfactant	Granted or awaiting / undergoing examination	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 examination	9 July 2004
Space Disinfection	A method for disinfecting a space using a concentrated aerosol or with controlled humidity	Awaiting examination	4 August 2005
Improved Aerosol	An ultra fine mist to disinfect and sterilise, including the process of vapour removal and controlled humidity	Awaiting examination	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 examination	4 August 2005
Membrane Concentrator	An aerosol and vapour biocide concentrator incorporating a semi-permeable membrane	Awaiting examination	4 August 2005
Membrane Vapour Concentrator	A vapour biocide concentrator incorporating a semi-permeable membrane	Awaiting examination	31 Jan 2008
Sub-cycle Based Disinfection System	A method for fast disinfection and rapid removal of residual sterilant	Provisional	30 June 2008
Aerosol Sensor	A method and apparatus for the measurement of aerosol for the purposes of certifying sterilization	Provisional	30 June 2008
Safe Chemical Delivery System	A method and apparatus for the safe handling of chemical consumables	Provisional	30 June 2008

Income statements

For year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Revenue					
Government grants		1,112	2,221	1,112	2,221
Interest income		1,943	635	1,943	635
Other income		–	9	–	9
Total Revenue	4	3,055	2,865	3,055	2,865
Operating expenses					
Staffing costs		4,639	3,564	4,626	3,564
Intellectual Property		594	217	594	217
Quality & Regulatory Management		356	91	356	91
Business Development		390	296	463	296
Premises Plant & Equipment		794	560	779	560
External Consultants & Advisors		2,166	2,568	2,142	2,568
Other operating costs		1,263	1,272	1,242	1,272
Total Operating expenses		10,202	8,568	10,202	8,568
Operating (loss) before income tax expense		(7,147)	(5,703)	(7,147)	(5,703)
Income tax expense	6	–	–	–	–
Net loss after income tax expense attributable to members of the parent entity		(7,147)	(5,703)	(7,147)	(5,703)

(Loss) per share for losses attributable to ordinary shareholders of the Company:	27	Cents	Cents
Basic (loss) per share		(3.7)	(4.3)
Diluted (loss) per share		(3.4)	(4.0)

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

Balance sheets

As at 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Current assets					
Cash assets	7	24,225	31,907	24,217	31,907
Receivables	8	121	164	109	164
Other	9	209	366	196	366
Total current assets		24,555	32,437	24,522	32,437
Non-current assets					
Investments in controlled entities	10	–	–	40	–
Property, plant and equipment	11	1,077	960	1,066	960
Total non-current assets		1,077	960	1,106	960
Total assets		25,632	33,397	25,628	33,397
Current liabilities					
Payables	14	756	1,937	753	1,937
Provisions	15	317	143	317	143
Total current liabilities		1,073	2,080	1,070	2,080
Non-current liabilities					
Total non-current liabilities		–	–	–	–
Total liabilities		1,073	2,080	1,070	2,080
Net assets		24,559	31,317	24,558	31,317
Equity					
Contributed equity	16	41,150	40,998	41,150	40,998
Reserves		734	527	733	527
Accumulated (losses)		(17,325)	(10,208)	(17,325)	(10,208)
Total equity		24,559	31,317	24,558	31,317

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

Statements of changes in equity

For the year ended 30 June 2008

Consolidated	Notes	Issued capital	Share option reserve	Foreign currency translation reserve	Accumulated losses	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2006	16	8,715	-	-	(4,504)	4,211
Loss for the year		-	-	-	(5,704)	(5,704)
Issue of share capital		32,169	-	-	-	32,169
Share issue cost		(1,886)	-	-	-	(1,886)
Capitalisation of loan		2,000	-	-	-	2,000
Share options granted		-	527	-	-	527
At 30 June 2007	16	40,998	527	-	(10,208)	31,317
Loss for the year		-	-	-	(7,147)	(7,147)
Options exercised		175	-	-	-	175
Share issue cost		(23)	-	-	-	(23)
Options expensed		-	236	-	-	236
Options lapsed		-	(30)	-	30	-
Other reserves		-	-	1	-	1
At 30 June 2008	16	41,150	733	1	(17,325)	24,559

Parent	Notes	Issued capital	Share option reserve	Foreign currency translation reserve	Accumulated losses	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2006	16	8,715	-	-	(4,504)	4,211
Loss for the year		-	-	-	(5,704)	(5,704)
Issue of share capital		32,169	-	-	-	32,169
Share issue cost		(1,886)	-	-	-	(1,886)
Capitalisation of loan		2,000	-	-	-	2,000
Share options granted		-	527	-	-	527
At 30 June 2007	16	40,998	527	-	(10,208)	31,317
Loss for the year		-	-	-	(7,147)	(7,147)
Options exercised		175	-	-	-	175
Share issue cost		(23)	-	-	-	(23)
Options expensed		-	236	-	-	236
Options lapsed		-	(30)	-	30	-
At 30 June 2008	16	41,150	733	-	(17,325)	24,558

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

Cash flow statements

For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Cash flows from operation activities					
Receipts from government grants		1,381	1,815	1,381	1,815
Payments to suppliers and employees		(10,200)	(6,995)	(10,180)	(6,995)
Interest received		1,684	594	1,684	594
Finance costs		–	–	–	–
Net cash (used in) operating activities	24(b)	(7,135)	(4,586)	(7,115)	(4,586)
Cash flows from investing activities					
Purchase of assets		(368)	(712)	(355)	(712)
Acquisition of subsidiary		–	–	(40)	–
Net cash (used in) investing activities		(368)	(712)	(395)	(712)
Cash flows from financing activities					
Proceeds from issue of shares and options		151	30,614	151	30,614
Payments for issue of shares and options		(331)	–	(331)	–
Net cash provided by (used in) financing activities		(180)	30,614	(180)	30,614
Net increase (decrease) in cash held		(7,683)	25,316	(7,690)	25,316
Cash at the beginning of the financial year		31,907	6,590	31,907	6,590
Effects of exchange rate changes on cash and cash equivalents		1	–	–	–
Cash at the end of the financial year	7	24,225	31,907	24,217	31,907

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

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1. Corporate information

The financial report on pages 34 to 37 covers Nanosonics Limited (the Company) as an individual parent entity and the consolidated entity consisting of Nanosonics Limited and its subsidiaries (the Group). The financial report is presented in the Australian currency.

Nanosonics Limited is a publicly listed company, limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 24, 566 Gardeners Road
Alexandria, NSW 2015
Australia

A description of the nature of the Group's operations and its principal activities is included in the Review of Operations and Activities on pages 3 to 6 and in the Directors' Report on page 7, both of which are not part of this financial report.

The financial report was authorised for issue by the Directors on 20 August 2008. The Company has the power to amend and reissue the financial report.

2. Financial Risk Management

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

The Group has no borrowings.

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

Financial Assets	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	17,334	31,907	17,327	31,907
Floating rate note	6,890	–	6,890	–
Receivables	121	164	109	164

The floating rate note is issued by Australia and New Zealand Banking Group Limited and matures on 18 September 2012. Interest is paid quarterly at a fixed margin of 0.42% above 90-day BBSW. The note is highly liquid and may not necessarily be held by the Company for its full term.

Financial Liabilities	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade and other payables	756	1,937	753	1,937

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

Foreign exchange risk	30 June 2008		30 June 2007	
	Euro \$'000	NZ\$ \$'000	Euro \$'000	NZ\$ \$'000
Other receivables	5	–	–	–
Trade payables	–	(3)	–	–
Net investment in foreign operation	25	–	–	–

Credit risk

Credit risk arises from holdings in cash, cash equivalents, deposits and floating rate notes with banks. The Group invests only in deposits and floating rate notes offered by Australia's four main banks. The maximum exposure to credit risk as at the reporting date is the carrying amount of the financial assets as set out above.

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 that are tradeable in highly liquid markets.

3. Summary of significant accounting policies

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

(a) Basis of preparation

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

Historical cost convention

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

(b) Statement of compliance

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Nanosonics Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS.

(c) 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

2008 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 13 to the financial statements on page 49.

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.

(d) Segment reporting

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

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

(iii) Group companies

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

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

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

(f) 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) Government grants

Grants from the 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.

(ii) Interest income

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

(g) Income Tax – Note 6

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the 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 to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumptions that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

Tax consolidation legislation

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

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

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

(h) Leases

Operating 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.

(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 with original maturities of three months or less 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) Receivables

The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

(k) Investments and other financial assets

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

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(l) Loans and receivables

Loans and 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 date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) and receivables (note 8) in the balance sheet.

(m) Held-to-maturity investments

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. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(n) Property, plant and equipment

All property, plant and equipment are 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 the replaced part is derecognised. 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.

(o) Depreciation and amortisation

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated or amortised using the straight line depreciation method over their estimated useful lives, taking into account residual values. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. Depreciation and amortisation are expensed. The depreciation/amortisation rates or useful lives used for each class of assets are as follows:

	2008	2007
Laboratory fit-out	16.67%	16.67%
Laboratory equipment	7.5% – 20%	7.5% – 20%
Office furniture and equipment	7.5% – 66.7%	7.5% – 66.7%
Leasehold improvement	11.25%	11.25%

(p) Intangible assets

(i) Research and Development

Research and development expenditure is expensed as incurred except to the extent that development expenditure, relating to the design and testing of new or improved products, is expected to generate future economic benefits, in which case it is capitalised. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. 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 is recorded as an intangible asset and amortised on a straight-line basis over the period during which the related benefits are expected to be realised once commercial production has commenced.

(ii) Patents and Trademarks

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

(q) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and 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.

(r) 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.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(t) Borrowing costs

Borrowing costs are expensed.

(u) Provisions

Provisions for legal claims, service warranties and other obligations are recognised when there is 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.

(v) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits, including wages, salaries and non-monetary benefits, and accumulating annual 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.

Long service leave

The liability for long-service leave is measured at the amounts expected to be paid when the liability is settled and is recognised in the provision for employee benefits when the employee is entitled to receive the benefits.

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 19. Amounts provided under the plans are shown in note 23 to the Financial Report on page 54.

The fair value of options granted under the ESOP is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value of options granted is adjusted to reflect market vesting conditions.

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.

(w) 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.

(x) Earning per share

(i) Basic earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to equity holders of the Company for the reporting period, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares of the Company outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority, in which case, the GST 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 receivable or payable. The net amount of GST 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 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.

(z) Rounding of amounts

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

(aa) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions 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 the judgements about 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.

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000

4. Revenue

Government grants	1,112	2,221	1,112	2,221
Interest income	1,943	635	1,943	635
Other income	–	9	–	9
	3,055	2,865	3,055	2,865

5. Loss before income tax expense

The loss from ordinary activities before income tax includes:

Expenses

Depreciation	241	160	238	160
Research and development costs	2,353	3,360	2,353	3,360
Rental expenses relating to operating leases	207	166	197	166
Share options expense	236	527	236	527

Auditor's remuneration

Details of the amounts paid to the auditor of the Company and its related practices for audit and non-audit services provided during the year are set out below.

Statutory audit of the financial statements	14	11	14	11
Services other than statutory audit	6	10	6	10

6. Taxation

(a) Income tax expense

Loss from ordinary activities	7,147	5,704	7,147	5,704
The prima facie income tax benefit applicable to the operating profit (loss) is calculated at 30% (2007:30%)	2,144	1,711	2,144	1,711
Sundry items	–	(101)	–	(101)
Future income tax benefit not booked	2,144	1,610	2,144	1,610
Income tax attributable to operating loss	–	–	–	–

(b) Deferred tax assets**Deferred tax assets not taken to account**

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

Estimated tax losses carried forward	17,568	11,061	17,568	11,061
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The potential future income tax benefit of 30% of tax losses carried forward will only be obtained if:

- (i) the Company and the Group derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised
- (ii) the Company and the Group continue to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Company and the Group is realising the benefit

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000

7. Cash Assets

Cash at bank and on hand		269	527	261	527
Deposits on call		7,777	31,380	7,777	31,380
Term Deposit		9,289	–	9,289	–
Floating Rate Note		6,890	–	6,890	–
	24(a)	24,225	31,907	24,217	31,907

8. Receivables

GST receivable		109	158	109	158
VAT receivable		9	–	–	–
Other receivables		3	6	–	6
		121	164	109	164

9. Other current assets

Prepayments		73	40	73	40
Government grant receivable		–	166	–	166
Interest income receivable		23	64	23	64
Deposits and bonds		68	56	55	57
Loan		45	40	45	40
		209	366	196	366

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

10. Non-current assets – Other financial assets

Shares in subsidiaries	–	–	40	–
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These financial assets are carried at cost.

11. Property plant and equipment

Laboratory fit-out

At cost	326	326	326	326
Accumulated depreciation	(315)	(278)	(315)	(278)
	11	48	11	48

Laboratory equipment

At cost	221	185	221	185
Accumulated depreciation	(125)	(95)	(125)	(95)
	96	90	96	90

Office furniture & equipment

At cost	696	550	684	550
Accumulated depreciation	(301)	(145)	(299)	(145)
	395	405	385	405

Leasehold improvements

At cost	324	285	324	285
Accumulated depreciation	(34)	(13)	(34)	(13)
	290	272	290	272

Manufacturing equipment

At cost	286	145	286	145
Accumulated depreciation	–	–	–	–
	286	145	286	145

Total plant and equipment net book value	1,077	960	1,066	960
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	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

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

Laboratory fit-out

Carrying amount at beginning of year	48	92	48	92
Additions	–	11	–	11
Disposals	–	(2)	–	(2)
Depreciation	(37)	(54)	(37)	(54)
Carrying amount at end of year	11	48	11	48

Laboratory equipment

Carrying amount at beginning of year	90	38	90	38
Additions	36	79	36	79
Disposals	–	–	–	–
Depreciation	(30)	(27)	(30)	(27)
Carrying amount at end of year	96	90	96	90

Office furniture & equipment

Carrying amount at beginning of year	405	122	405	122
Additions	154	350	141	350
Disposals	(2)	–	(2)	–
Depreciation	(161)	(67)	(159)	(67)
Carrying amount at end of year	395	405	385	405

Leasehold improvements

Carrying amount at beginning of year	273	36	273	36
Additions	39	249	39	249
Disposals	–	–	–	–
Depreciation	(22)	(13)	(22)	(13)
Carrying amount at end of year	290	272	290	272

Manufacturing equipment

Carrying amount at beginning of year	145	–	145	–
Additions	286	145	286	145
Disposals	(145)	–	(145)	–
Depreciation	–	–	–	–
Carrying amount at end of year	286	145	286	145
Total plant and equipment net book value	1,077	960	1,066	960

12. Change in Composition of Group

Incorporation of German Subsidiary

On 21 June 2007, the Group incorporated a subsidiary, Nanosonics Europe GmbH, in Hamburg, Federal Republic of Germany, with an initial share capital of €5,000. The subsidiary is wholly-owned by the Parent company, Nanosonics Limited. On 30 June 2007, the 25,000 shares in Nanosonics Europe GmbH had not been formally assigned to the Parent company and the subsidiary had not commenced operations. Accordingly, the subsidiary was not included in the consolidated results of the Group as at and for the year ended 30 June 2007. Nanosonics Europe GmbH commenced operations in August 2007 and the results of its operations have been included in the consolidated annual financial results for the Group from that date.

Nanosonics Europe GmbH provides a regional base and representative office for the Group's operations in Europe, which presently comprise the development of sales and distribution relationships and networks in preparation for the launch of the Group's first product in Europe in 2009.

13. Controlled entities

Particulars of controlled entities are:

Name of controlled entity	Country of incorporation	Class of shares	Equity holding	
			2008	2007
Nanosonics Europe GmbH	Germany	Ordinary	100%	–
Saban Ventures Pty Limited	Australia	Ordinary	100%	100%

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

14. Payables

Trade creditors	347	822	347	822
Other creditors – accrued charges	409	1,115	406	1,115
Total	756	1,937	753	1,937

15. Provisions

Current

Bonuses	160	–	160	–
Employee benefits-Annual Leave & Long Service Leave	157	143	157	143
Total	317	143	317	143

16. Contributed equity

Share capital

195,083,623 ordinary fully paid shares (2007: 194,319,243)	41,150	40,998	41,150	40,998
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Fully paid ordinary shares carry one vote per share and carry the rights to dividends

	Consolidated and Parent entity	
	Number of shares	\$'000

Movements in ordinary shares on issue

At 30 June 2006	12,253,565	8,715
10:1 Share split ¹	110,282,085	–
Shares issued:	13,783,593	5,169
Less: share issue costs	–	(102)
Shares issued:	54,000,000	27,000
Less: share issue costs	–	(1,784)
Capitalisation of loan	4,000,000	2,000
At 30 June 2007	194,319,243	40,998
Share options exercised	764,380	175
Less: share issue costs	–	(23)
At 30 June 2008	195,083,623	41,150

¹ The shareholders approved a 10 for 1 split in the number of ordinary shares at the general meeting dated 19 September 2006, which increased the number of shares from 12,253,565 to 122,535,650.

17. Financial instruments

(a) Interest rate risk exposures

2008	Notes	Fixed interest rate maturing in:					Total
		Floating interest rate	1 Year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	
Financial assets							
Cash	7	8,046	–	–	–	–	8,046
Term Deposits	7	–	9,289	–	–	–	9,289
Floating Rate Note	7	6,890	–	–	–	–	6,890
Loans	9	–	45	–	–	–	45
Receivables	8	–	–	–	–	121	121
Others	9	–	–	–	–	164	164
		14,936	9,334	–	–	285	24,555
Weighted average interest rate		7.58%	7.50%	–	–	–	–
Financial liabilities							
Payables	14	–	–	–	–	756	756
						756	756
Net financial assets (liabilities)		14,936	9,334	–	–	(471)	23,799

2007	Notes	Fixed interest rate maturing in:					Total
		Floating interest rate	1 Year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	
Financial assets							
Cash	7	31,907	–	–	–	–	31,907
Receivables	8	–	–	–	–	164	164
Loans	9	–	40	–	–	–	40
Other	9	–	–	–	–	326	326
		31,907	40	–	–	490	32,437
Weighted average interest rate		6.00%					
Financial liabilities							
Payables	14	–	–	–	–	1,937	1,937
		–	–	–	–	1,937	1,937
Net financial assets (liabilities)		31,907	40	–	–	(1,447)	30,500

(b) Risk exposure

Information about the Group's and the Company's exposure to credit risk, foreign exchange and price risk is provided in note 2.

18. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2007: Nil).

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000

19. Capital and leasing commitments**Non-cancellable capital expense commitments**

Future capital expense commitments not provided for in the financial statements and payable:

Within one year	789	327	789	327
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	204	215	193	215
One year or later and no later than five years	184	363	170	363
	1,177	905	1,152	905

20. Contingent liabilities

Government Grants received

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

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

21. Employee benefits

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Aggregate liability for employee benefits, including on-cost:				
Payables	160	–	160	–
Employee benefits provision	157	143	157	143
Number of employees at year end	47	37	47	37

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.

22. Related party disclosure

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

(a) Parent entities

The parent entity within the Group is Nanosonics Limited which at 30 June 2008 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 13 on page 49 of this Financial Report.

(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in Note 23 on page 54 of this Financial Report.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Purchases of goods				
Purchases of services from Subsidiaries	–	–	226,936	–
Superannuation contributions				
Contributions to superannuation funds on behalf of all employees	281,141	172,701	281,141	172,701
Other transactions				
Remuneration paid to directors of the parent entity	430,157	390,684	430,157	390,684

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

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Current payables (purchases of services)	–	–	24	–

(f) Guarantees

No guarantees were provided during the year under review and none were in effect at the year end between the Company and its subsidiaries (2007: 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.

23. 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 (appointed 16 June 2008)

Dr David Fisher, Non-Executive Director

Mr William Widin, Non-Executive Director (appointed 8 March 2007)

Mr Geoff Marshall, Executive Director and CEO (resigned 14 December 2007)

(b) Key Management Personnel

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

Dr Ron Weinberger, General Manager, Innovations & Technology

Mr Ole Stockhausen, General Manager, Global Market & Business Development

Ms Rachael Moore, General Manager, Product Development

Mr John Murtagh, General Manager, Business Systems & Regulatory Affairs

Mr Chris Grundy, Chief Financial Officer & Company Secretary

Mr Arjang Safa, General Manager, Manufacturing & Supply Chain (appointed 1 January 2008)

All of the above persons were employed by Nanosonics Limited and were respectively Directors and Key Management personnel during the year ended 30 June 2007, except for:

Mr David Radford (appointed 16 June 2008)

Mr Geoff Marshall (resigned 14 December 2007)

Mr John Murtagh (appointed 24 July 2006)

Mr Chris Grundy (appointed 4 June 2007)

Mr Arjang Safa (appointed 1 January 2008)

(c) Directors and Key Management Personnel compensation

	Group and Company	
	2008 \$	2007 \$
Director fees	50,004	38,685
Consultant fees	–	58,984
Short term employee benefits	1,207,086	866,628
Post-employee benefits	86,731	63,714
Termination benefits	79,619	–
Share based payments	99,660	147,072
Total compensation	\$1,523,100	\$1,175,083

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 Sections 5 to 8 of the Remuneration Report on pages 22 to 26.

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

(i) Options provided as remuneration

Details of options provided as remuneration, together with the terms and conditions of the options, can be found in Sections 6 to 8 of the Remuneration Report on pages 24 to 26. No such options were exercised and therefore no shares were issued on the exercise of the options.

(ii) Options holdings

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

Options holdings Name		Balance at start of the year	Granted as compensation	Other changes	Exercised	Balance at the end of the year	Vested and exercisable	Unvested or not exercisable
Directors								
M Stang	2008	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-
D Radford ¹	2008	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-
D Fisher ^{3,4}	2008	547,700	-	-	(547,700) ²	-	-	-
	2007	547,700	-	-	-	547,700	-	547,700 ²
W Widin ⁵	2008	278,340	-	-	-	278,340	-	278,340 ²
	2007	278,340	-	-	-	278,340	-	278,340 ²
G Marshall ⁶	2008	1,650,000	-	(1,650,000)	-	0	-	-
	2007	-	1,650,000	-	-	1,650,000	-	1,650,000 ²
Key Management Personnel								
R Weinberger	2008	1,175,000	-	-	-	1,175,000	387,750	787,250
	2007	-	1,175,000	-	-	1,175,000	-	1,175,000
O Stockhausen	2008	625,000	-	-	-	625,000	206,250	418,750
	2007	-	625,000	-	-	625,000	-	625,000
R Moore	2008	490,000	-	-	-	490,000	161,700	328,300
	2007	-	490,000	-	-	490,000	-	490,000
J Murtagh	2008	465,000	-	-	-	465,000	153,450	311,550
	2007	465,000	-	-	-	-	-	465,000
C Grundy	2008	-	250,000	-	-	250,000	-	250,000
	2007	-	-	-	-	-	-	-
A Safa	2008	-	80,000	-	-	80,000	-	80,000
	2007	-	-	-	-	-	-	-

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. There were no shares granted as compensation during the reporting period or in the preceding reporting period.

Options holdings Name		Balance at start of the year	Received during the year on the exercise of options	Other net changes during the year	Balance at end of the year	Number of restricted shares
Directors						
M Stang ⁷	2008	28,377,000	–	–	28,377,000	28,377,000 ²
	2007	27,386,000	–	991,000	28,377,000	28,377,000 ²
D Radford	2008	–	–	–	–	–
	2007	–	–	–	–	–
D Fisher ^{3,4}	2008	396,726	547,700 ¹	–	944,426	843,191 ²
	2007	396,726	–	–	396,726	295,491 ²
W Widin	2008	1,785,000	–	–	1,785,000	1,284,000 ²
	2007	835,000	–	950,000	1,785,000	1,284,000 ²
G Marshall ⁶	2008	40,000	–	(40,000)	–	–
	2007	–	–	40,000	40,000	–
A Sava ⁸	2008	–	–	–	–	–
	2007	9,128,670	–	(9,128,670)	–	–
S Kritzler ⁹	2008	–	–	–	–	–
	2007	27,386,000	–	(27,386,000)	–	–
B Stang ¹⁰	2008	–	–	–	–	–
	2007	27,386,000	–	(28,552,000)	–	–
Key Management Personnel						
R Weinberger	2008	–	–	–	–	–
	2007	–	–	–	–	–
O Stockhausen	2008	–	–	–	–	–
	2007	–	–	–	–	–
R Moore	2008	6,000	–	–	6,000	–
	2007	–	–	6,000	6,000	–
J Murtagh	2008	–	–	–	–	–
	2007	–	–	–	–	–
C Grundy	2008	20,000	–	–	20,000	–
	2007	–	–	20,000	20,000	–
A Safa	2008	–	–	–	–	–
	2007	–	–	–	–	–

1 The Company intends to grant 1,500,000 options to Mr David Radford - for details refer to Note 28(f) below.

2 Certain shares and share options owned or controlled by Directors Maurie Stang, David Fisher and William Widin have been classified as restricted securities by the Australian Securities Exchange (ASX) in terms of the ASX Listing Rules whereby the holders agreed that, subject to certain limited conditions known as the "cash formula", they will not dispose of or encumber the shares until the second anniversary of the date of commencement of official quotation on 17 May 2007. The "cash formula" is described on page 18 of the Company prospectus dated 2 April 2007, a copy of which is available on the Company's website or from the Company Secretary.

3 The interests of Dr David Fisher are held by Brandon Capital Management Pty Limited, a company of which Dr Fisher is both a director and shareholder.

4 Dr David Fisher is a director of Brandon Capital Management Pty Limited (Brandon), which manages three investment funds independent of Brandon (each a "Fund") that in aggregate held 8,343,789 shares at the date of this report. Whilst Brandon is expected to and does make recommendations to the boards of management of these Funds, neither David Fisher nor Brandon is able to control decisions regarding any Fund's shares. Accordingly, the Directors advise that Brandon does not have any relevant interest in any of the shares held by any Fund.

5 The interests of Mr William Widin are held by Darlington Weir Pty Limited, a company of which Mr Widin is both a director and shareholder.

6 Mr Geoff Marshall resigned as a Director and as an employee on 14 December 2007. His options had not vested and, accordingly, his options lapsed at that date.

7 Mr Maurie Stang (Non-Executive Chairman) and Mr Bernard Stang each have a relevant interest in the holdings of the other's shares as they are associates of each other for the purposes of section 15 of the Corporations Act 2001. At the date of this report, Mr Bernard Stang held 28,552,000 shares in the Company, all of which have been classified as restricted securities per note 1 above.

8 Dr Alexei Sava resigned as a Director on 12 December 2006.

9 Mr Steven Kritzler resigned as a Director on 21 March 2007.

10 Mr Bernard Stang resigned as a Director on 21 March 2007.

(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 2008.

(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 2008 and 30 June 2007. 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	Aeris Environmental Ltd	Services provided Services received
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 and services received
Maurie Stang	Novapharm Research (Australia) Pty Ltd	Services received
Maurie Stang	Ramlist Pty Ltd	Rent of premises
Maurie Stang	Stangcorp Pty Ltd	Services received
William Widin	Widin Management Pty Ltd	Services received
Arjang Safa	Samec	Products purchased and services received

The aggregate amounts of each of the above types of transactions with Directors and key management personnel of the Group were:

	2008 \$	2007 \$
Amounts recognised as revenue		
Services provided	–	5,138
Amounts recognised as expenses		
Services received	112,396	75,933
Products purchased and services received	323,747	438,839
Rent of premises	96,161	98,081

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

	2008 \$	2007 \$
Liabilities		
Current liabilities	12,764	63,224

24. Notes to the cash flow statements

(a) Reconciliation of cash

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Cash and deposits on call	7	24,225	31,907	24,217	31,907

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

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

Operating (loss) after income tax	(7,147)	(5,704)	(7,147)	(5,704)
Adjustment for:				
Depreciation and amortisation	244	160	242	160
Share based payments	236	527	236	527
Forgiveness of debt	–	–	–	–
Unrealised gain / loss on foreign exchange	–	–	–	–
Changes in assets and liabilities				
(Increase) / decrease in receivables	43	(144)	55	(144)
(Increase) / decrease in other current assets	162	(276)	175	(276)
Increase / (Decrease) in creditors and borrowings	(847)	734	(850)	734
Increase / (Decrease) in provisions	174	62	174	62
Increase / (Decrease) in other liabilities	–	55	–	55
Net cash used in operating activities	(7,135)	(4,586)	(7,115)	(4,586)

(c) Credit standby arrangements unused

Unused credit facility	–	–	–	–
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25. Non-cash investing and financing activities

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Capitalisation of non-current loan as contributed equity		–	2,000	–	2,000

26. Segment reporting

Business segment

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

Geographical segments

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

	Australia		Europe		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	3,055	2,865	227	–	3,055	2,865
Expenses	(10,202)	(8,568)	(227)	–	(10,202)	(8,568)
Net (loss) before tax	(7,147)	(5,703)	–	–	(7,147)	(5,703)
Income tax expense	–	–	–	–	–	–
Net (loss) after tax	(7,147)	(5,703)	–	–	(7,147)	(5,703)

27. Earnings (loss) per share

	Consolidated	
	2008	2007
	Cents	Cents

(a) Basic earnings (loss) per share

Loss attributable to ordinary shareholders of the Company	(3.7)	(4.3)
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(b) Diluted earnings (loss) per share

Loss attributable to ordinary shareholders of the Company	(3.4)	(4.0)
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(c) Earnings (losses) used in calculating earnings (loss) per share

	Consolidated	
	2008	2007
	\$'000	\$'000
Net loss after income tax expense attributable to shareholders	(7,147)	(5,704)

(d) Weighted average number of shares used

	Consolidated	
	2008	2007
	Number	Number
For basic earnings per share	194,884,841	133,764,768
For diluted earnings per share	210,036,397	143,589,324

(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 28.

28. Share based compensation

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

(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 which vest in three equivalent tranches on each of the first three anniversaries of the later of the Company's listing date on 17 May 2007 and the issue date of the options. The options expire on the fourth such anniversary. 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

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.

Employee Share Option Plan

The Employee Share Option Plan is designed to provide long-term incentives for employees (including executive directors) to deliver long-term shareholder returns.

(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 note 28(c) below.

(c) Options granted

Set out below are summaries of unexpired options granted under the plans as at 30 June 2008:

Option Type	GSOP	GSOP	GSOP	ESOP	GSOP	ESOP	GSOP	ESOP	GSOP	ESOP
Exercise price	\$0.20	\$0.30	\$0.20	\$0.20	\$0.20	\$0.75	\$0.20	\$0.30	\$0.75	\$0.75
Grant date	July 2001	Apr 2006	Apr 2006	Apr 2007	Apr 2007	Apr 2007	Jul 2007	Jul 2007	Jul 2007	Nov 2007
Assessed fair value at grant date	\$0 ¹	\$0 ¹	\$0.145	\$0.240	\$0.240	\$0.085	\$0.540	\$0.475	\$0.280	\$0.145
Expiry date	31 Oct 2007	30 Sep 2008	30 Sep 2008	17 May 2011	17 May 2011	17 May 2011	17 Jul 2011	17 Jul 2011	17 Jul 2011	30 Nov 2011
Number at start of the year	547700	7,358,400	154,840	5,085,000	1,710,000	1,565,000	-	-	-	-
Number granted during the year	-	-	-	-	-	-	65,000	50,000	250,000	80,000
Number exercised during the year	547700	-	-	-	-	-	-	-	-	-
Number forfeited during the year	-	-	-	1,630,000	10,000	263,000	-	-	-	-
Number at end of the year	0	7,358,400	154,840	3,455,000	1,700,000	1,302,000	65,000	50,000	250,000	80,000
Number vested and exercisable at end of year	-	7,358,400	154,840	1,140,550	561,000	429,660	-	-	-	-

1 No value was assessed for these options as they were granted as part of a capital raising programme.

(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 2008 included:

Option Type	GSOP	ESOP	GSOP	ESOP	GSOP	ESOP	GSOP	ESOP	GSOP	ESOP
Exercise price	\$0.20	\$0.20	\$0.20	\$0.75	\$0.20	\$0.30	\$0.75	\$0.75	\$0.75	\$0.75
Grant date	Apr 2006	Apr 2007	Apr 2007	Apr 2007	Jul 2007	Jul 2007	Jul 2007	Jul 2007	Jul 2007	Nov 2007
Expiry date	30 Sep 2008	17 May 2011	17 May 2011	17 May 2011	17 Jul 2011	17 Jul 2011	17 May 2011	17 May 2011	17 May 2011	30 Nov 2011
Estimated share price at grant date	\$0.300	\$0.375	\$0.375	\$0.375	\$0.690	\$0.690	\$0.690	\$0.690	\$0.690	\$0.715
Expected price volatility of the company's shares	45.73%	45.73%	45.73%	45.73%	45.73%	45.73%	45.73%	45.73%	45.73%	46.02%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	5.42%	6.17%	6.17%	6.17%	6.40%	6.40%	6.40%	6.40%	6.40%	6.265%
Assessed fair value at grant date	\$0.145	\$0.240	\$0.240	\$0.085	\$0.540	\$0.475	\$0.280	\$0.280	\$0.280	\$0.145

(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, except where the options are granted as part of a capital raising programme, in which case no cost is recognised.

Employee Share Option Plan (ESOP)

Options granted under the ESOP require the holder to be an employee of the Company at the time the options are exercised, except that they may be exercised, if vested, up to 90 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.

Amounts expensed in respect of unexpired options at the financial year end were:

Options expense	2008 \$'000	2007 \$'000
GSOP \$0.20 options granted current financial year	\$32	\$433
GSOP \$0.30 options granted current financial year	\$24	–
% probability of achievement ESOP options with exercise price \$0.20	60%	100%
ESOP \$0.20 options granted previous financial year	\$166	–
ESOP \$0.20 options granted current financial year	–	\$85
% probability of achievement ESOP options with exercise price \$0.75	20%	100%
ESOP \$0.75 options granted previous financial year	\$9	–
ESOP \$0.75 options granted current financial year	\$5	\$9
Total Options expense	\$236	\$527

(f) Intention to grant options to acquire share

Subject to the approval of the members in general meeting, the Company intends to grant 1,500,000 options to acquire fully paid ordinary shares in the Company to Mr David Radford, CEO and Executive Director, as follows:

- 500,000 options to be granted upon the approval of the members at an exercise price of \$0.30 per share and with vesting dates calculated from 16 June 2008; and
- 500,000 options to be granted at the completion of 12 months service with the Company at an exercise price of \$0.30 per share; and
- 500,000 options to be granted at the completion of 24 months continuous employment with the Company at 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.

Subject to the approval of the members in general meeting, each of the abovementioned options will: be issued and allotted to Mr Radford or his nominee and be issued for no cash consideration; be issued and allotted with clause 5 of Nanosonics' ESOP; lapse in accordance with clause 7 of the ESOP; vest over three years in accordance with the ESOP; and otherwise for options under points 1 and 2 above be granted and capable of exercise in accordance with the terms and conditions of the ESOP and the Listing Rules of ASX Limited.

(g) Employee share plans

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

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

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

Exempt Employee Share Plan ("EESP")

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

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.

(h) Shares granted

To the date of this report no shares have been granted under either the EESP or the DESP.

29. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2008 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.

In the Directors' opinion:

1. the financial statements and notes set out on pages 34 to 63 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 2008 and of their performance for the financial year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. the remuneration disclosures set out in the Remuneration Report on pages 19 to 26 comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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.



William Widin
Director

Sydney
20 August 2008



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

Scope

Report on the Financial Report

We have audited the accompanying financial report of Nanosonics Limited (the company) and Nanosonics Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 18 to 24 of the directors' report and not in the financial report.

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 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

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 and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 and the remuneration disclosures in the directors' report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Nanosonics Limited on 20 August, would be in the same terms if provided to the directors as at the date of this auditor's report.

Audit Opinion

In our opinion, the financial report of Nanosonics Limited and controlled entities is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 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; and
- (b) the financial report also complies with International financial Reporting Standards as disclosed in Note 1;
- (c) the remuneration disclosures that are contained in pages 18 to 24 of the directors' report comply with Accounting Standard AASB 124.

M. D. Nicholaeff
Partner

Signed at Sydney on 20 August 2008

UHY Haines Norton
Chartered Accountants

The shareholder information set out below was applicable as at 14 August 2008.

A. Equity security holders

Twenty largest holders of quoted equity securities.

The names of the twenty largest holders of quoted securities are shown below, together with the largest holders of unquoted restricted securities, as noted.

Ordinary shares	Quoted shares Number held	Unquoted, escrowed shares ¹ Number held	Percentage of issued shares
Bernie Stang		28,552,000	14.64%
Maurie Stang		28,377,000	14.55%
Steve Kritzler		27,376,000	14.03%
JP Morgan Nominees Australia Limited	8,955,718		4.59%
National Nominees Limited	6,121,723		3.14%
Australian Biotechnology & Healthcare Fund No.3 Limited	4,148,980		2.13%
3M Company	4,000,000		2.05%
Asia Union Investments Pty Limited	2,200,000		1.13%
Australian Biomedical Fund No.1 Limited	2,099,568		1.08%
Australian Biomedical Fund No.2 Limited	2,095,241		1.07%
Towns Corporation Pty Limited	1,985,767		1.02%
Cogent Nominees Pty Limited	1,845,919		0.95%
Darlington Weir Pty Limited	501,000	1,284,000	0.91%
Pildra Investments Pty Limited	1,606,667		0.82%
HSBC Custody Nominees (Australia) Limited	1,572,004		0.81%
ANZ Nominees Limited	1,501,868		0.77%
Bennelong Resources Pty Limited	1,500,000		0.77%
Kefford Holdings Pty Limited	1,400,000		0.72%
Bevan Holdings Pty Limited	262,487	1,000,000	0.65%
Hofbauer Nominees Pty Limited		1,200,000	0.62%
Alex Sava		1,128,670	0.58%
Simon Magasanik	1,046,833		0.54%
Bank Insinger de Beaufort Safe Custody NV	1,033,333		0.53%
Avanteos Investments Limited	1,000,000		0.51%
JFR Investments Pty Limited	1,000,000		0.51%
Brandon Capital Management Pty Limited	101,235	843,191	0.48%
Flawless Flowers Pty Limited	866,673		0.44%
Larinda Pty Limited		800,000	0.41%
UBS Wealth Management Australia Nominees Pty Limited	701,499		0.36%
Total of all other holders	55,301,247	1,675,000	29.21%
Total shares in class on issue	102,847,762	92,235,861	
Total shares on issue	195,083,623		100.0%

¹ Holdings classified by the Australian Securities Exchange as unquoted restricted securities, which are scheduled to be released from escrow on 17 May 2009. For further details see section D below.

Unquoted equity securities

Ordinary shares	Number of ordinary shares	Number of holders
Shares issued		
Restricted ordinary shares – details per section D below	92,235,861 ²	27
Options granted		
Restricted General Share Options to take up unissued ordinary shares – details per section D below	278,340 ³	1
General Share Options to take up unissued ordinary shares	8,833,220 ⁴	76
Employee Share Options to take up unissued ordinary shares	5,087,000	40

² Three holders hold more than 20% each of the restricted ordinary shares. For details see Substantial holders, section C.

³ Options held by Darlington Weir Pty Limited.

⁴ No person holds 20% or more of these securities.

B. Distribution of equity securities

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

	Quoted ordinary shares	Unquoted, escrowed ordinary shares	Unquoted options	Unquoted, escrowed options
1 – 1,000	39			
1,001 – 5,000	189	2	9	
5,001 – 10,000	246		1	
10,001 – 100,000	680	11	67	
100,001 and over	154	14	39	1
Total Holders	1,308	27	116	1

There were 94 holders of less than a marketable parcel of ordinary shares.

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage of total ordinary shares
Bernie Stang ⁶	28,552,000 ⁵	14.64%
Maurie Stang ⁶	28,377,000 ⁵	14.55%
Steven Kritzler	27,676,000 ⁵	14.03%
Kinetic Investment Partners Limited	12,574,477	6.45%

⁵ Denotes a holding classified by the Australian Securities Exchange as unquoted restricted securities. For further details see section D below.

⁶ Mr Maurie Stang and Mr Bernie Stang each have a relevant interest in the holdings of the other's shares, as they are associates of each other for the purposes of section 15 of the Corporations Act 2001.

D. Restricted securities

Securities subject to mandatory Australian Securities Exchange escrow arrangements are shown below:

	Unquoted shares	Unquoted options
Escrow ending on 17 May 2009	92,235,861	278,340

The holders of certain shares and share options, classified by the ASX as restricted securities, are subject to restricted security arrangements in accordance with the requirements of the ASX Listing Rules whereby, subject to certain limited conditions known as the "cash formula", they cannot dispose of or encumber the shares until 17 May 2009. The "cash formula" is described on page 18 of the Company prospectus dated 2 April 2007, a copy of which is available on the Company's website or from the Company Secretary.

E. 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.

AASB	Australian Accounting Standards Board
AGM	Annual General Meeting
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange Limited
BBSW	Bank bill swap reference rate
CE Mark	CE Marking symbolises the conformity of a product with the applicable European Community requirements imposed on the manufacturer.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMDCAS	Canadian Medical Devices Conformity Assessment System
Company	Nanosonics Limited
Date of this report	20 August 2008
DESP	Deferred Employee Share Plan
EESP	Exempt Employee Share Plan
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESOP	Employee Share Option Plan
FDA	Food and Drug Administration – USA
Financial Year	Year to 30 June
Fiscal Year	Year to 30 June
Group	Nanosonics Limited and its wholly owned subsidiary companies
GSOP	General Share Option Plan
GST	Goods and Services Tax
HLD	High Level Disinfection
IFRS	International Financial Reporting Standards
IP	Intellectual Property
ISO 13485	Quality Management System for Medical Devices - Requirements for Regulatory Purposes
KMP	Key Management Personnel (excludes non-Executive Directors)
KOL	Key Opinion Leader
KPI	Key Performance Indicator
LTI	Long Term Incentive
NanoNebulant™	The biocide used in Nanosonics' technological process
OEM	Original Equipment Manufacturer
Reporting period	Year to 30 June 2008
STI	Short Term Incentive
TEC	Total Employment Cost
TGA	Therapeutic Goods Administration Australia
Trophon™	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
VAT	Value Added Tax
Website	www.nanosonics.com.au

Nanosonics Limited

ACN 11 095 076 896

Incorporated 14 November 2000

Directors

Maurie Stang

David Radford

David Fisher

Ron Weinberger

William Widin

Secretary and Chief Financial Officer

Chris Grundy

Registered Office

Unit 24, 566 Gardeners Road

Alexandria NSW 2015 Australia

Ph: +61 2 8063 1600

European Office

Nanosonics Europe GmbH

Falkenried 88. House E

D-20251 Hamburg Germany

Ph: +49 40 298 67308

Share Register

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Perth WA 6000 Australia

GPO Box D182

Perth WA 6840 Australia

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Ph: 1300 557 010 (within Australia)

Fax: +61 8 9323 2033

www-au.computershare.com

Investor Relations

Computershare Investor Services Pty Ltd

Ph: +61 8 9323 2000

Ph: 1300 557 010 (within Australia)

Chris Grundy – Company Secretary

Ph: +61 2 8063 1600

Email: info@nanosonics.com.au

Auditor

UHY Haines Norton

Level 11, 1 York Street

Sydney NSW 2000 Australia

Legal Advisors

Shelston IP

Level 21, 60 Margaret Street

Sydney NSW 2000 Australia

Spruson & Ferguson

Level 35, St Martins Tower

31 Market Street

Sydney NSW 2000 Australia

Palaschinski & Partner

Neuer Wall 44

Hamburg 20354 Germany

Bankers

ANZ Banking Group Limited

Level 1, 20 Martin Place

Sydney NSW 2000 Australia

Deutsche Bank AG

Eppendorfer Landstrasse 70

Hamburg 20249 Germany

Stock Exchange Listing

Nanosonics Limited shares are listed on the Australian Securities Exchange Limited (ASX)

ASX code: NAN

Industry Group: Healthcare Equipment & Services

2008 Annual General Meeting

The 2008 AGM of Nanosonics Limited will be held:

At 4.15pm on Tuesday 18 November 2008

At Level 47, MLC Centre, 19 Martin Place,

Sydney NSW Australia

Website Address

www.nanosonics.com.au

