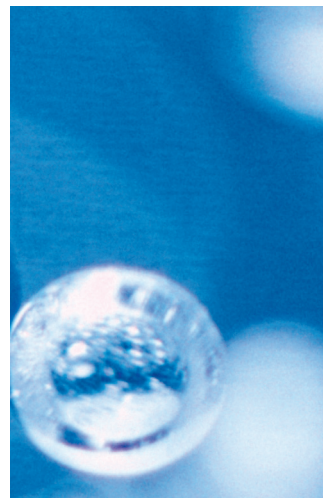
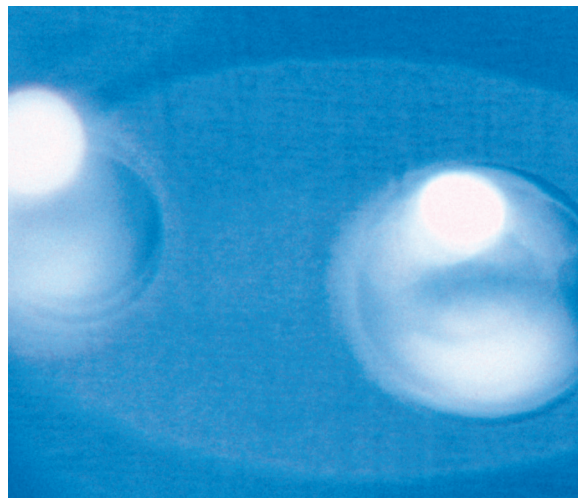


nanosonics

annual report
2007



About Nanosonics

Nanosonics is an Australian life sciences company developing decontamination products to reduce the spread of infection.

Technology

- Nanotechnology is a field of applied science focused on matter of a minuscule size
- Nanosonics, in its application of nanotechnology, nebulises a disinfecting liquid, hydrogen peroxide, into a fine aerosol, converts this into nano-sized particles and injects these into a disinfecting chamber designed for medical instruments
- This NanoNebulant™ biocide disinfects instruments quickly, effectively and economically and the end product is environmentally friendly oxygen and water end product.

Commercialisation strategy, business model

- While Nanosonics' technology has wide applications, the business strategy is to focus on one initial product. The product range will be expanded to take advantage of pre-established manufacturing, distribution and marketing arrangements
- Nanosonics will market its products in Australia and internationally
- It intends to outsource manufacturing and distribution
- Revenue will be generated through the sales of products as well as consumables for these products

Achievements in FY07

- Achievement of EN ISO 13485:2003 certification, an international standard for medical device Quality Management (November 2006)
- Listing on the Australian Stock Exchange (May 2007, ASX code: NAN)
- Negotiations internationally with distributors and manufacturers for Nanosonics first commercial product
- Establishment of a low volume manufacturing facility at Alexandria, Sydney, to establish standards for future outsourcing of product manufacturing

Competitive advantage

- Practices regarding disinfection of medical instruments vary according to the type of instrument and the extent to which it is involved in invasive medical procedures
- The increasing use of minimally invasive procedures in modern medicine has increased the level of disinfection required and its complexity in relation to sensitive components like lenses, optics and computer chips
- Current disinfection practices for this complex equipment involve using high temperatures and toxic material which can be costly, time consuming, ineffective and damaging
- Nanosonics' NanoNebulant™ technology overcomes these disadvantages while meeting current demands for better disinfection by the medical profession and regulatory bodies



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Corporate directory

Directors

Maurie Stang
Non-executive Chairman
Geoff Marshall
Managing Director and CEO
David Fisher
Bill Widin

Chief Financial Officer and Secretary

Chris Grundy

Secretary

Robert Waring

Registered Office

Unit 24, 566 Gardeners Road
Alexandria, NSW 2015, Australia
Ph: (02) 9313 4399

Share Register

Computershare Investor
Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth, WA 6000, Australia
GPO Box D182, Perth,
WA 6840, Australia
Ph: 1300 557 010

Auditor

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

Legal Advisors

Shelstons IP
Level 21, 60 Margaret Street
Sydney, NSW 2000, Australia
Sprusons & Ferguson
Level 35, 31 Market Street
Sydney NSW 2000 Australia

Bankers

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

Stock Exchange Listing

Nanosonics Limited shares
are listed on the Australian
Securities Exchange

Website address

www.nanosonics.com.au



Chairman's letter

Dear Shareholder,

Nanosonics listed its shares on the Australian Securities Exchange, in May this year, after raising \$27 million in new equity capital. The Board was pleased with the strong support for the Nanosonics listing, with the shares being oversubscribed and trading at a premium. We thank the many shareholders who invested prior to the IPO and welcome our new shareholders to the Company.

The Board, on behalf of all shareholders, wishes to acknowledge the outstanding effort of the Nanosonics team, for its excellence in Research and Development (R&D) and its ability to drive the commercialisation of our novel technologies. Nanosonics continues to pursue actively its objective of achieving commercial revenue in FY2008 in line with milestones set out in our Prospectus.

The progress of each of our business areas continues to be positive and results-oriented. During the year we engaged in active development of our launch markets, determining customer and distributor requirements while validating a rapidly growing demand for innovative infection control solutions.

Market developments are also proving favourable to Nanosonics. For example, with the European Medical Device Directives being implemented more rigorously, manufacturers of medical instruments are required to offer an effective and safe means of disinfecting or sterilising their instruments. This mandate establishes a strong motive for the leading manufacturers, and their customers, to support the Nanosonics "NanoNebulant™" technology. Further, Nanosonics continues to gain crucial support amongst industry associations and infection control experts who have been impressed with the ability of our devices to offer a standardised, safe, rapid and environmentally friendly process of disinfecting complex medical devices.

It was a pleasure to welcome Mr. Bill Widin as an independent member of our Board of Directors. Appointed in March 2007, Bill brings an additional strong commercial and financial background to the Board and is actively contributing to the Board's commercial and governance agenda.

Our Advisory Board has also developed to reflect our growing needs across the technical, commercial and regulatory horizons of the business. Mrs. Carolyn Hewson, Dr Arthur Brandwood, Dr Phil Stricker, Professor Ron Penny and Ms. Caroline Beasley joined the Advisory Board. Each new member brings unique and diverse skills and experience and we value their excellent contribution to our operational and strategic planning.

I take this opportunity to thank our current Board of Directors, former Directors, Advisory Board and the whole Nanosonics team for their considerable effort on behalf of the Company. Nanosonics is now broadening its horizons as an emerging global business. We are enhancing our capabilities in corporate governance, management and an increasing worldwide collaborative network.

Our vision and commitment is to build an ethical, innovative and profitable company that capitalises on a global need for new solutions to the problems of infection control.

Nanosonics has demonstrated to date that it is able to assert technical leadership in its field and is committed to the commercialisation of its products internationally.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Stang', with a stylized flourish at the end.

Maurie Stang

Non-Executive Chairman

Review of operations

Review of Operations

Nanosonics' first Annual Report as an ASX listed company outlines a transition from R&D towards commercialisation of the Company's technology and products.

Achievements in 2007 showed progress with four key elements necessary for success in medical device commercialisation:

- progressing and completing design for manufacturing;
- proceeding to achieve regulatory approvals;
- negotiating commercially robust distribution arrangements; and
- establishing high quality manufacturing capabilities.

In line with Nanosonics' strategy, most of these elements will take place internationally as well as in Australia. Nanosonics is also progressing with new products from its technology platform.

As it has begun implementing its development strategy, Nanosonics increased its operating loss from \$1.8 million in 2006, to \$5.7 million in 2007. R&D and product development costs are written off when incurred. This result was in fact better than the business plan. Cash reserves were \$31 million at 30 June 2007, reflecting proceeds from the IPO and a government grant of \$2.2 million. The detailed financial results of our operations and activities are set out in the financial statements on pages 27 to 55 of this Annual Report.

The basis of Nanosonics' initial application of its technology is the generation of minuscule, or nano-sized, particles of disinfectant within chambers to disinfect medical instruments that contain sensitive components such as lenses, polymers, optics and computer chips. The Nanosonics process has the advantage of not using high temperatures or large quantities of toxic material which are the basis of most current practices.

The introduction of Nanosonics' technology to the market comes at a time of increasing dissatisfaction amongst the medical community with current disinfection practices and also more rigorous global regulation of medical devices manufacturers regarding disinfection.

Nanosonics continuously receives positive reactions to its technology from the medical profession and from potential distributors of its products.

As it launches its first product later this year, Nanosonics expects to record commercial revenue for the 2008 financial year. In line with its business model, this revenue will include revenue from product sales and consumables for these products.



Market Development

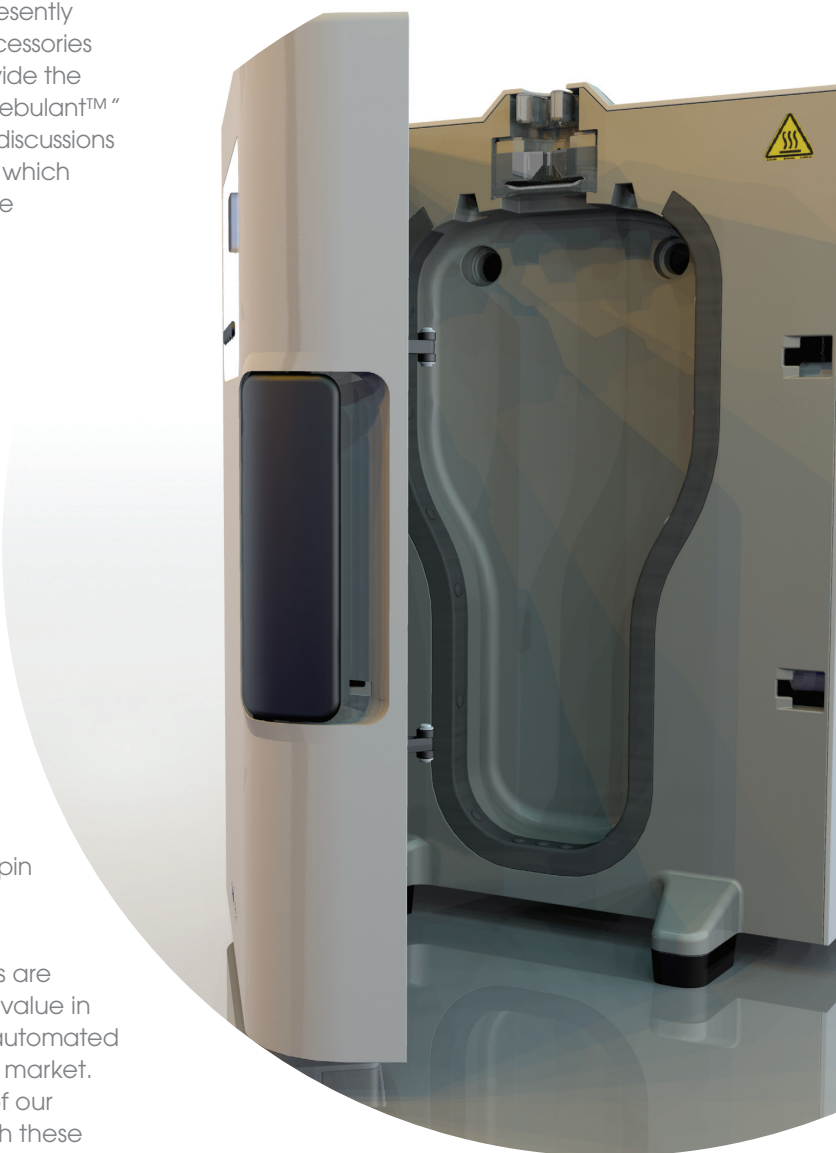
Nanosonics intends to launch its first device, the ultrasound probe disinfecter, in the European market later this financial year, after receiving regulatory approvals. In anticipation of this launch, Nanosonics has established strong relationships with a range of distributors who meet our customers' needs in ultrasound products.

All of these well regarded distributors presently sell ultrasound systems or ultrasound accessories in Nanosonics' target markets. They provide the ideal channel to market for our "NanoNebulant™" ultrasound product. We are currently in discussions and negotiations with these distributors, which will lead to the establishment of effective channels to market in advance of our product launch.

We expect to make progressive announcements over coming months as we appoint distributors in various territories.

It is our expectation that distributors and medical instrument manufacturers (OEMs) will promote our device through their marketing, road shows and customer networks. Discussions with these companies, in Europe, the USA and Australia, have reinforced our appreciation of potential customer interest and the strength of the market opportunity. In the process, our Market Development team has developed relationships with key ultrasound opinion leaders and policy makers whose support will underpin demand for our ultrasound device in advance of its launch.

These opinion leaders and associations are embracing our products' benefits and value in bringing rapid, safe, reproducible and automated processes to the worldwide ultrasound market. Based on the advanced capabilities of our technology, we are working closely with these ultrasound associations to change working practices and to deliver higher environmental standards and safer workplaces.





Research & Development (R&D)

During the year, the R&D team has progressed with the pipeline of products developed from the Nanosonics platform technology.

An important achievement was establishing modular characteristics of the components of the Nanosonics ultrasound product. This will facilitate shorter development lead times for other devices in the product pipeline as a significant amount of component commonality will exist.

The R&D group has also added to the strength of the Company's intellectual property portfolio. Several inventions were conceived and documented during the year and formal lodgement of their patents will occur in the coming months. Most of these are devised to protect the first product to market as it takes its final form but will also have applications in other products. The R&D team has also improved the performance of the core technology, further reducing its complexity and costs.

While several new functional product applications have been researched and considered, the R&D team currently is focused on delivering and launching Nanosonics' initial ultrasound products.

Product Development & Manufacturing

As Nanosonics has progressed from applied R&D to product realisation, it has increased employee numbers significantly in product development. The attainment of EN ISO 13485 Certification in November 2006 has resulted in a larger requirement for documentary and quality disciplines which are a necessary and continual demand in product development.

For most of the year, the R&D and product development teams were focused on completing the component assembly, design and systems integration for the ultrasound probe disinfection device. A team of more than 12 engineers and design experts worked for several months crafting and testing designs and systems that would be able to be manufactured at low cost and high volume. This process is near its end and product engineering will commence soon. The next phase of development requires that designs be transferred to manufacturing. Manufacturing tooling and resources are then committed for full scale production.

While Nanosonics ultimately intends to outsource high-volume manufacturing to qualified, external third parties, it has established initially in its own premises a low volume manufacturing facility. This will be used to determine and deliver quality and cost objectives before transferring production to larger manufacturers. This facility is intended to have a production capacity of 3000 to 4000 ultrasound units per annum.

Manufacturing of the ultrasound device consumable cartridges will be outsourced at the commencement of commercialisation. Nanosonics has evaluated several consumable manufacturing partners in Europe and Australia, with a view to establishing reliable consumables supply chain lines in advance of device sales in Europe and Australia.

Regulatory Affairs & Quality Management

The attainment of EN ISO 13485:2003 Certification was an important Company milestone. This internationally recognised, quality standard is a major and necessary achievement to enable commencement of the product development process. It allows Nanosonics to make regulatory submissions with the various regulatory authorities around the world, including CE Mark in Europe, Therapeutic Goods Administration in Australia (TGA) and Food and Drug Administration in the United States (FDA). Nanosonics is working towards achieving self regulation of product design, engineering and manufacturing activities, assisted by a quality management software system called "Objective 7". This company-wide software package is validated according to the requirements of EN ISO 13485:2003 standard and other global regulatory requirements.

Nanosonics is in the process of completing its regulatory submission for its first device to CE Mark in Europe. We are advised that all of the required activities and processes are in place to begin the formal regulatory approval. It is expected that the CE Mark regulatory process will enable meeting our objective of launching in Europe in FY2008.

The Company's regulatory and quality team are also developing strategies and contacts for regulatory submission for the USA (FDA), Canadian (Health Canada) and Japanese markets (Ministry of Health & Welfare). We expect to file regulatory submissions with FDA and Health Canada in the 2nd half of FY2008 or earlier. .

Work on the European regulatory submission has a lot of common ground with USA, Australian and Canadian regulatory processes so submission timelines are expected to be shorter.

Our People

I want to make special mention of the skill and innovation of our entire Nanosonics team. We have engaged a team of talented, professional and committed individuals who have made significant advances toward our technical, commercial and cultural objectives. They display outstanding teamwork in resolving challenges and innovation in the pursuit of Nanosonics' goals. They have a common vision which enables Nanosonics to meet corporate objectives. Consequently, it is important to recognise and reward our people for their achievements and the value their work has added. To retain and provide incentive to our key personnel, we established two share option plans during the year, one for our employees and one for our key consultants, and granted unlisted options under both plans. Full details of the options granted are provided in the Directors' Report on page 11 of the Annual Report.

At the beginning of the year Mr. John Murtagh joined the executive team to head Regulatory Affairs and Quality Assurance. Under John's stewardship we have established all of Nanosonics' quality and regulatory capabilities from a zero base in fewer than 12 months. Towards the end of the year, Mr. Chris Grundy was appointed CFO and Company Secretary of Nanosonics. The appointments of Chris and John strengthen and complete our executive team. The executive team manages and drives Nanosonics professionally with enthusiastic dedication to our employees' and shareholders' expectations.

I am confident and grateful that our people engage everyday, not only with their heads but also their emotions, and without the latter we would not be able to achieve our goals and vision.



Geoff Marshall

Chief Executive Officer
22 August 2007

DIRECTORS' REPORT 30 June 2007

Your Directors are pleased to 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 2007.

Directors

The Directors of Nanosonics Limited at the date of this report are:

Maurie Stang *Non-Executive Chairman*
Geoff Marshall *Managing Director and CEO*
David Fisher *Non-Executive Director*
William (Bill) Widin *Non-Executive Director*

Detailed information about the Directors is set out on pages 14 to 15 and comprises a part of the Directors' Report. Information about Directors who held office during the year but who were not directors at the date of this report is provided under Directors and Committees of the Board below.

Principal Activities

During the year the principal continuing 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.

Dividends – Nanosonics Limited

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

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.

Review of Operations

Information on the operations, financial position of the Group and its business strategies and prospects is set out in the Review of Operations on pages 2 to 6 of this Annual Report.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

Shares and shareholding

(i) Share split

At a General Meeting on 19 September 2006 the shareholders approved a 10 for 1 split in the number of ordinary shares on issue at that date. The number of shares on issue increased from 12,253,565 shares to 122,535,650 shares. There was no change in contributed equity as a result of the split.

(ii) Private placement of shares

In March 2007, the Company allotted 13,783,593 shares at a price of 37.5 cents per share in exchange for \$5,067,021 in contributed equity net of capital raising costs of \$101,826.

(iii) Securities Exchange Listing

On 17 May 2007, the Company issued 54,000,000 shares in an initial public offering at a price of 50 cents per share in exchange for \$25,215,832 in contributed equity capital net of capital raising costs of \$1,784,168. All 190,319,243 shares in Nanosonics Limited at that time were admitted for listing on the Australian Securities Exchange Limited.

DIRECTORS' REPORT 30 June 2007

Significant changes in the state of affairs (continued)

(iv) Issues of shares

On 17 May 2007, following the listing of the Company's shares on the Australian Securities Exchange and in terms of an agreement dated 14 December 2001, the loan of \$2,000,000 from 3M Company Inc was converted to 4 million new shares in the Company that rank equally with all other shares on issue. Since the year end on 30 June 2007 and to the date of this report a further 216,680 shares have been issued at \$0.30 per share as a result of options exercised.

Admission to the Australian Securities Exchange Limited 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. The Group used and continues to use the cash and assets readily convertible to cash that it had at the time of admission in ways consistent with its business objectives.

Movement in Equity Share Capital	2007 \$
Total contributed equity as at 30 June 2006	\$8,715,157
Increase in contributed equity of \$32,282,853 (from \$8,715,157 to \$40,998,010) as result of:	
Private placement of 13,783,593 shares at \$0.375 each	5,168,847
Less: Associated costs	(101,826)
Initial public offering of 54,000,000 new shares at \$0.50 each on 17 May 2007	27,000,000
Less: Associated costs	(1,784,168)
Allotment of 4 million shares to 3M Company @ \$0.50 each on 17 May 2007. The terms of agreement for this allotment are summarised on page 101 of the Company's prospectus dated 2 April 2007	2,000,000
Total contributed equity as at 30 June 2007	\$40,998,010

Matters subsequent to the end of the financial year

A German subsidiary company, Nanosonics Europe GmbH, has been incorporated with initial share capital of €25,000 being paid by the Company in July 2007. The German subsidiary conducted no activities to the date of this report.

No other matter or circumstance has arisen since 30 June 2007 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 this Annual Report under the Review of Operations on pages 2 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 financial 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' REPORT 30 June 2007

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	Maurie Stang, <i>Non-Executive Chairman</i> Geoff Marshall, <i>Managing Director and CEO</i> David Fisher William (Bill) Widin (appointed 8 March 2007) Steven Kritzler (resigned 21 March 2007) Alexei Sava (resigned 12 December 2007) Bernard Stang (resigned 21 March 2007)
Audit and Risk Management Committee:	Bill Widin, Chairman (appointed 8 March 2007) David Fisher Maurie Stang Bernard Stang (resigned 21 March 2007)
Governance and Nomination Committee:	David Fisher, Chairman Maurie Stang Bill Widin (appointed 8 March 2007)
Remuneration Committee:	David Fisher, Chairman Maurie Stang Bill Widin (appointed 8 March 2007)

Information on directors and company secretaries

Information on the directors and company secretaries at the date of this report is set out on pages 14 to 16 and is a part of this Directors' Report.

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

(a) Directors

Mr Bill Widin B.Ec (Hons), FCA, FCPA was appointed a director on 8 March 2007. In accordance with the Constitution, Mr Widin retires as a director at the next annual general meeting and, being eligible, offers himself for re-election.

Dr Alexei Sava MSc, PhD resigned as a director on 12 December 2006.

Mr Bernie Stang BArch and Mr Steven Kritzler MSc resigned as directors on 21 March 2007.

Mr Maurie Stang is a director who has held office for three years or more since he was last elected. In accordance with the Company's Constitution and Corporate Governance Charter Mr Stang retires as a director at the next annual general meeting and, being eligible, offers himself for re-election.

Mr Geoff Marshall, as Managing Director, is not subject to retirement by rotation. Dr David Fisher was re-elected as a director at the 2006 Annual General Meeting. Mr Marshall and Dr Fisher continue in office as directors.

(b) Secretaries

Mr Chris Grundy B.Com, CA was appointed joint company secretary on 4 June 2007.

Mr Radek Mierzejewski B.Com, DipGrad, CA resigned as joint company secretary on 17 July 2007.

Mr Robert Waring continues in office as joint company secretary.

DIRECTORS' REPORT 30 June 2007

Meetings of Directors

The number of Directors' meetings, (including meetings of Committees), held during the year ended 30 June 2007, and number 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	11						
Geoff Marshall	12	11						
David Fisher	12	11	1	1				
Steven Kritzler	7	5						
Alexei Sava	3	2						
Bernard Stang	7	6	1	1				
Bill Widin	6	4						

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

* The Governance and Nomination Committee and the Remuneration Committee were each formed in March 2007 and no meetings were held between that date and the year end on 30 June 2007.

Remuneration report

The Remuneration Report is set out on pages 17 to 22 and is a part of this Directors' Report.

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 S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Directors	Ordinary shares *	Options over ordinary shares *
Maurie Stang	28,377,000	-
Geoff Marshall	40,000	1,650,000
David Fisher**	396,726	547,770
Bill Widin	1,785,000	278,340

* The number of ordinary shares has been restated for the 10 for 1 split that was approved by the shareholders at a general meeting held on 19 September 2006.

** 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 hold 8,469,604 shares. 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.

DIRECTORS' REPORT 30 June 2007

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 ended 30 June 2007, except for the loan to Australian Biomedical Fund No.2 Ltd, referred to in notes 11 and 21(iv) to the accounts.

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
Employee Options	April 2007	\$0.20	5,085,000	17 May 2011
General Options	April 2007	\$0.20	1,710,000	17 May 2011
Employee Options	April 2007	\$0.75	1,565,000	17 May 2011
General Options	July 2007	\$0.20	50,000	17 July 2011
General Options	July 2007	\$0.30	50,000	17 July 2011
Employee Options	July 2007	\$0.20	15,000	17 July 2011
Employee Options	July 2007	\$0.75	250,000	17 July 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. The total value of the General Options is expensed in the year they are granted. In both cases a share options reserve is created as part of shareholders' equity. The amount of \$526,840 was taken to the share options reserve in the current financial year in respect of the options listed above.

Shares issued on the exercise of options

The following ordinary shares of Nanosonics Limited were issued during the year ended 30 June 2007 and to the date of this report on the exercise of options granted under the Nanosonics Limited General Options 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

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
July 2001	\$0.20	547,700	31 October 2007
April 2006	\$0.30	7,141,720	30 September 2008
April 2006	\$0.20	154,840	30 September 2008
April 2007	\$0.20	5,085,000	17 May 2011 *
April 2007	\$0.20	1,710,000	17 May 2011
April 2007	\$0.75	1,565,000	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 *
TOTAL		16,569,260	

DIRECTORS' REPORT 30 June 2007

The issue price of shares has been restated following a 10 for 1 split in the number of ordinary shares that was approved at the general meeting dated 19 September 2006.

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.

* These options are issued under the Employee Share Option Plan and expire on the earlier of their expiry date or 90 days after voluntary termination of the employee's employment.

Auditor

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

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 23 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 (UHY Haines Norton) for audit and non-audit services provided during the year are set out below.

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

	Consolidated 2007 \$	2006 \$
1. Audit services		
Audit and review of financial reports	11,000	6,000
Other audit work under the <i>Corporations Act 2001</i>	5,000	7,010
Total remuneration for audit services	16,000	13,010
2. Non-audit services		
Audit-related services		
Audit of regulatory returns	3,900	3,900
Other Services	475	-
Total remuneration for audit-related services	4,375	3,900
Taxation services		
Tax compliance services	650	-
Total remuneration for taxation services	650	-
Total remuneration for non-audit services	5,025	3,900

DIRECTORS' REPORT **30 June 2007**

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums of \$36,486 to insure the directors and secretaries and general managers 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 willful breach of duty by the officers or the improper use by the officers of their positions or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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

Proceedings on behalf of the company

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

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

This report, including the Information on Directors and Secretaries (on pages 14 to 16) and the Remuneration Report (on pages 17 to 22), is made and signed in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read "David Fisher".

David Fisher
Director

Sydney
22 August 2007

INFORMATION ON THE DIRECTORS AND KEY MANAGEMENT PERSONNEL

The information on the directors and secretaries of Nanosonics Limited provided on pages 14 to 16 comprises a part of the Directors' Report.

DIRECTORS

Maurie Stang

Non Executive Chairman

Experience and expertise

Executive Director and Chairman of Nanosonics Limited from 14 November 2000 to March 2007. Non-Executive Director and Chairman from March 2007 to the date of this report. Since 1975 has established and developed a number of successful companies in the healthcare sector.

Other current directorships

Non-executive Chairman of Aeris Technologies Limited (director since 2002).

Former directorships in last 3 years

None

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

Interests in shares and options

28,377,000 shares in Nanosonics Limited (details per note 22(d))

Geoff Marshall BE MAICD

Managing Director and Chief Executive Officer

Experience and expertise

Managing Director and CEO since 8 September 2005. Business experience in Europe and North America in organisations including Philips Electronics, British Airways Engineering, Unilever and Compaq Computers. A former partner of Price Waterhouse. Has held CEO and general management positions with Healthcare of Australia, Rothmans Holdings and Orica.

Other current directorships

Non-Executive Director of Electrometals Technologies Limited and Mediplan Holdings Australia Limited.

Director of Saban Ventures Pty Limited, a subsidiary of Nanosonics Limited.

Former directorships in last 3 years

None

Interests in shares and options

40,000 shares in Nanosonics Limited (details per note 22(d))

1,650,000 options to acquire shares in Nanosonics Limited (details per note 22(d))

INFORMATION ON THE DIRECTORS AND KEY MANAGEMENT PERSONNEL

DIRECTORS (continued)

David Fisher BRurSc(Hons), MAppFin, PhD, FFin
Non Executive Director

Experience and expertise

Director since 30 July 2001. Over 25 years experience, including substantial operating experience in the biotechnology and healthcare industry in Australia and overseas. Held senior positions with Pharmacia AB in Sweden and was CEO of Peptech Limited in Australia.

Other current directorships

Managing Director of Brandon Capital Management Pty Limited, a venture capital provider and investor in the Company. 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.

Former directorships in last 3 years

None

Special responsibilities

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

Interests in shares and options

396,726 shares in Nanosonics Limited (details per note 22(d))
547,700 options to acquire shares in Nanosonics Limited (details per note 22(d))

William (Bill) Widin BEc(Hons), FCA, FCPA
Non Executive Director

Experience and expertise

Director since 8 March 2007. Over 25 years of public practice as a chartered accountant. 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

None

Former directorships in last 3 years

None

Special responsibilities

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

Interests in shares and options

1,785,000 shares in Nanosonics Limited (details per note 22(d))
278,340 options to acquire shares in Nanosonics Limited (details per note 22(d))

INFORMATION ON THE DIRECTORS AND KEY MANAGEMENT PERSONNEL

KEY MANAGEMENT PERSONNEL

Dr. Ron Weinberger PhD, AIMM

General Manager - Innovation & Technology

Appointed 9 August 2004. Is responsible for all of the Nanosonics' discovery and development programs, including the portfolio of intellectual property. Has over 15 years' experience working in the biotechnology arena, with proven experience in developing, designing and managing large scale research programs with strong commercial perspective. Is co-inventor of several of the patents owned by the Group and has published over 50 peer-reviewed publications and patent applications. Is qualified with a PhD in medical biochemistry. Chairman of the Nanosonics Ltd Advisory Board.

Olé Jochen Stockhausen Dipl.VWL, CBA, MBA

General Manager - Global Market & Business Development

Appointed 25 October 2004. Has extensive international experience in financial management, strategy, sales, marketing and corresponding communications. Main focus in the last ten years has been the commercial development of small and mid-size companies, mainly in the biotechnology sector. Is qualified with a Diploma in Economics, a Diploma in Financial Analysis and a Master of Business Administration.

Rachael Moore MEng

General Manager - Product Development and Manufacturing

Appointed 27 March 2006. Is responsible for all Nanosonics' product development and manufacturing programmes. Has worked in new product development for more than 10 years, with the last eight in the medical devices industry. Holds multiple patents in medical device design. Has proven skills in the planning and execution of medical device development programs, and has specialist knowledge in Mechanical Engineering, Industrial Design, Human Factors and Ergonomics. Is qualified with a Masters of Engineering in Product Design Engineering from Glasgow University/Glasgow School of Art (UK).

John Murtagh BEng

General Manager - Business Systems and Regulatory Affairs

Appointed 24 July 2006. Has extensive experience in the medical device industry and has worked as the Quality Manager and Senior Project Manager with two leading Australian medical device companies, ResMed Inc and Cochlear Ltd. As Quality Manager, successfully led regulatory audits by Therapeutic Goods Administration (Australia), Food and Drug Administration (USA) and TuV Rheinland (Germany). Has proven experience in bringing a Class III medical device to market. Is qualified with a Bachelors Degree of Electronic and Electrical Engineering, with additional qualifications in Quality Systems Auditing and an Associate Certificate in Project Management from the George Washington University.

Chris Grundy BCom, CA, MAICD

Chief Financial Officer and Company Secretary

Appointed 4 June 2007. Has broad experience with Bayer and large Australian companies in Pharmaceuticals, Medical Devices and Complementary Medicines. Responsibilities included CFO and Company Secretary of an ASX top-200 company. Has held roles in general management, finance, operations, sales and marketing, in Australia, Britain and Southern Africa, and in professional services with Ernst & Young in South Africa. Is qualified with a B.Com and CA.

Robert Waring BEc, CA, FCIS, FFin, FAICD

Company Secretary

Appointed 25 October 2005. Has over 34 years experience in financial and corporate roles including 16 years in company secretarial roles for ASX listed companies and 12 years as a director of an ASX listed company. Prior to that, nine years experience with an international firm of chartered accountants. Is a Director of Oakhill Hamilton Pty Ltd, a company which provides secretarial and corporate advisory services.

Radek Mierzejewski BCom, DipGrad, CA

Acting Chief Financial Officer and Company Secretary

Appointed 19 July 2006. Has over 12 years professional accounting experience including 7 years as an auditor working for the "Big 4" and other leading Chartered Accounting firms in Australia, New Zealand and Europe and over 4 years working as a Financial Controller and Company Secretary for an Australian public company. Resigned on 17 July 2007.

REMUNERATION REPORT 30 June 2007

The information in the Remuneration Report of Nanosonics Limited provided on pages 17 to 22 comprises a part of the Directors' Report.

1. Remuneration Policies

Details of Nanosonics Limited's remuneration policies and practices together with details of the remuneration of Directors' and Key Management Personnel are as follows:

a) Overview of remuneration policies

The Company's Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies related to the non-Executive Directors, Chief Executive Officer, and key management personnel and ensures that the remuneration policies and practices are consistent with the Company's strategic goals and human resource objectives.

The Committee has access to the advice of independent remuneration consultants to ensure the remuneration and incentive schemes are consistent with Company objectives and current market practices.

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 amount 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.

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 position on the Advisory Board.

d) Executives

The objective of the Company's executive reward structure is to ensure reward for performance is competitive and appropriate for the results achieved. The Company ensures that the levels of compensation and remuneration are sufficient and reasonable and explicitly linked to the achievement of personal and Company objectives. The short and long term incentive plans are specifically aligned to shareholder interests.

Executive pay structures include a base salary and superannuation. In addition, executives and senior managers can participate in both short term performance based incentive schemes and the Employee Share Option Plans. Details of executive remuneration are detailed on page 19.

e) Short term incentive (STI) scheme

The Company has a short-term incentive scheme whereby its senior executives and managers can earn cash payments of up to 25% of their base salaries, subject to the achievement of certain defined key performance indicator targets.

f) Share Option based compensation

In April 2007, the Company established an Employee Share Option Plan (ESOP) which was approved by the Directors on 2 April 2007.

Details of share option based compensation included in executive and Directors remuneration are set out on page 21.

REMUNERATION REPORT 30 June 2007

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. The letter summarises the Board policies and terms, including compensation, relevant to the office of director. A copy of the letter can be found on Nanosonics Limited's website www.nanosonics.com.au.

Remuneration and other terms of employment for the CEO, CFO and General Managers ("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 Nanosonics Employee Share Option Plan. 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

Options over shares in Nanosonics Limited are granted under the Nanosonics Employee Share Option Plan ("ESOP") which was approved by the Directors on 2 April 2007. The ESOP is designed to provide long-term incentives for executives and certain employees to deliver long-term shareholder returns. 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. Vesting for one-third of the options granted occurs at each of the first three anniversaries of the date of issue and the options lapse on the later to occur of 17 May 2011 and the fifth anniversary of the date of issue. When exercisable, each option is convertible into one ordinary share. ESOP options expire on the earlier of their expiry date or 90 days after voluntary termination of the employee's employment.

Details of options over ordinary shares in the Company provided as remuneration to each Director and each of the key management personnel are set out below.

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 2007 and 30 June 2006, except for:

Directors

Mr Bill Widin *Non-Executive Director* (appointed 8 March 2007)
Mr Steve Kritzler *Non-Executive Director* (resigned 21 March 2007)
Mr Bernard Stang *Non-Executive Director* (resigned 21 March 2007)
Dr Alexei Sava *Non-Executive Director* (resigned 12 December 2006)

Key Management Personnel

Ms Rachael Moore *General Manager - Product Development and Manufacturing* (appointed 27 March 2006)
Mr John Murtagh *General Manager - Business Systems and Regulatory Affairs* (appointed 24 July 2006)
Mr Chris Grundy *Chief Financial Officer & Company Secretary* (appointed 4 June 2007)
Mr Radek Mierzejewski *Acting Chief Financial Officer & Company Secretary* (19 July 2006 to 17 July 2007)
Mr Robert Waring *Company Secretary* (appointed 25 October 2005)

REMUNERATION REPORT 30 June 2007

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:

		Primary			Post-employment	Equity compensation	Other compensation	Total	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary and fees \$	STI cash bonus (A) \$	Non-monetary benefits \$	Super annuation Benefits \$	Value of options (B) \$	Termination Benefits \$			
Non-executive Directors										
Maurie Stang (Chairman)	2007	16,667						16,667		
	2006	-						-		
David Fisher	2007	11,009			991			12,000		
	2006	-						-		
Bill Widin	2007	11,009			991			12,000		
Steven Kritzler *	2007									
	2006									
Bernard Stang	2007							-		
	2006							-		
Alexei Sava	2007	7,692			692			8,385		
	2006	100,000			9,000			109,000		
Executive Director										
Geoff Marshall (CEO)	2007	223,125	46,631	41,690	12,686	25,885		350,017	21%	7%
	2006	263,665						263,665		
Key Management Personnel										
Ron Weinberger (GM Innovations & Technology)	2007	117,225	23,500	17,841	12,665	17,700		188,932	22%	9%
	2006	97,500	36,000	12,249	12,015			157,764	23%	0%
Olé Stockhausen (GM Global Market & Business Development)	2007	100,252	20,358		10,855	9,071		140,936	21%	6%
	2006	75,942	24,000		8,991			108,932	22%	0%
Rachael Moore (GM Product Development & Manufacturing)	2007	117,543	22,346		12,583	5,045		157,516	17%	3%
	2006	30,077	-		2,707			32,784		
John Murtagh (GM Business Systems & Regulatory Affairs)	2007	105,047	31,071		12,251	4,628		152,996	23%	3%
	2006	-	-					-		
Radek Mierzejewski (acting CFO and Company Secretary)**	2007	-	-			40,350		40,350	100%	100%
Robert Waring (Company Secretary)**	2007	51,292	-			44,393		95,685	46%	46%
	2006	30,498	-			9,990		40,488	25%	25%

* An amount of \$42,686 (2006: \$16,841) was paid to Novapharm Research (Australia) Pty Ltd for contracted R&D conducted by Steven Kritzler and Alex Sava. This amount is a portion of the total amount paid to Novapharm for R&D referred to in Note 21 Related Party Disclosure.

** Mr Radek Mierzejewski acted jointly with Mr Robert Waring as Company Secretary. Mr Mierzejewski is an employee of Medi-Consumables Pty Ltd and he was not remunerated directly by Nanosonics Limited for his services as Company Secretary. An amount of \$438,839 (2006: \$161,699) was paid to Medi-Consumables Pty Ltd for services provided by that company to Nanosonics Limited, including the services of Mr Mierzejewski as Company Secretary and acting CFO. This amount is referred to in Note 21 Related Party Disclosure. Equity compensation, comprising General Options valued at \$40,350, was awarded directly by Nanosonics to Mr Mierzejewski (2006: \$Nil).

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed above and in Note 21 to the financial statements.

REMUNERATION REPORT 30 June 2007

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

Notes in relation to the table of remuneration of Directors and key management personnel

- (a) The short-term cash incentive bonus is for performance during the financial year using the criteria set out on page 17.
- (b) The fair value of the options is calculated at the date of grant 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 of options on grant date:

Option type	Grant Date	Expiry Date	Estimated share price at grant date	Exercise price	Estimated volatility	Risk free interest rate
ESOP	Apr 2007	17 May 2011	\$0.375	\$0.75	45.73%	6.17%
GOP	Apr 2007	17 May 2011	\$0.375	\$0.20	45.73%	6.17%
ESOP	Apr 2007	17 May 2011	\$0.375	\$0.20	45.73%	6.17%
GOP	Apr 2006	30 Sep 2008	\$0.300	\$0.20	45.73%	5.42%

6. Analysis of Bonuses included in Remuneration

Details of the vesting profile of cash bonuses awarded as short-term incentive remuneration to each Director of the Company and each of the other key management personnel named above, are detailed below.

Short term incentive bonus					
		Included in remuneration	Vested in	Forfeited in	
		(A)	year	year	
		\$	%	(B)	%
Directors					
G Marshall	2007	46,631	100%	0%	
	2006	-	-	-	
Other key management personnel					
R Weinberger	2007	23,500	100%	0%	
	2006	-	-	-	
O Stockhausen	2007	20,358	100%	0%	
	2006	-	-	-	
R Moore	2007	22,346	100%	0%	
	2006	-	-	-	
J Murtagh	2007	31,071	100%	0%	
	2006	-	-	-	
R Waring	2007	-	-	-	
	2006	-	-	-	

- (a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the short term incentive bonus schemes for the 2007 financial year.
- (b) Amounts forfeited in the financial year are for amounts relating to key performance indicators that were not achieved in the year.

REMUNERATION REPORT 30 June 2007

7. Analysis of Share-based Payments Granted as Remuneration

Details of the vesting profile of options granted as long-term incentive remuneration to each Director of the Company and each of the other key management personnel named are detailed below.

Options granted	Type of Option *	Number	Date	% vested in year	Forfeited in year	Financial years in which grant vests		
2007								
Directors								
G Marshall	ESOP@\$0.75	150,000	Apr 2007	-	-	2008	2009	2010
G Marshall	ESOP@\$0.20	1,500,000	Apr 2007	-	-	2008	2009	2010
Other key management personnel								
R Weinberger	ESOP@\$0.75	175,000	Apr 2007	-	-	2008	2009	2010
R Weinberger	ESOP@\$0.20	1,000,000	Apr 2007	-	-	2008	2009	2010
O Stockhausen	ESOP@\$0.75	125,000	Apr 2007	-	-	2008	2009	2010
O Stockhausen	ESOP@\$0.20	500,000	Apr 2007	-	-	2008	2009	2010
R Moore	ESOP@\$0.75	290,000	Apr 2007	-	-	2008	2009	2010
R Moore	ESOP@\$0.20	200,000	Apr 2007	-	-	2008	2009	2010
J Murtagh	ESOP@\$0.75	290,000	Apr 2007	-	-	2008	2009	2010
J Murtagh	ESOP@\$0.20	175,000	Apr 2007	-	-	2008	2009	2010
R Mierzejewski	GOP@\$0.20	150,000	Apr 2007	-	-	2008	2009	2010
R Waring	GOP@\$0.20	175,000	Apr 2007	-	-	2008	2009	2010
2006								
Directors								
	-	-	-	-	-	-	-	-
Other key management personnel								
R Waring	GOP@\$0.20	16,500	Apr 2006	-	-	-	2009	-

* ESOP signifies options granted under the Nanosonics Limited Employee Share Option Plan.

* GOP signifies options granted under the Nanosonics Limited General Share Option Plan.

REMUNERATION REPORT 30 June 2007

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			Total option value granted in year
	Granted in year (A)	Exercised in year (B)	Forfeited in year (C)	
	\$	\$	\$	\$
2007				
Directors				
G Marshall	25,885	-	-	372,750
Other key management personnel				
R Weinberger	17,700	-	-	254,875
O Stockhausen	9,071	-	-	130,625
R Moore	5,045	-	-	72,650
J Murtagh	4,628	-	-	66,650
R Mierzejewski	40,350	-	-	40,350
R Waring	44,393	-	-	44,393
2006				
Directors	-	-	-	-
Other key management personnel				
R Waring	15,818	-	-	15,818

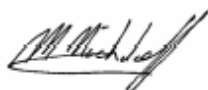
- (A) The value of options granted in the year is their fair value calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during 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.

UHY Haines Norton
Chartered Accountants
incorporating Saidman Levy & Associates

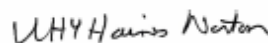
**Nanosonics Limited and its controlled Entity
ABN 11 095 076 896
Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001
To the Directors of Nanosonics Limited**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 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. Nicholaëff
Partner



UHY Haines Norton
Chartered Accountants

Signed at Sydney on 22 August 2007

UHY Haines Norton - ABN 85 140 758 156 NEWBN 88 100 826

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CORPORATE GOVERNANCE STATEMENT

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

A description of the Company's main corporate governance practices is set out below.

Board of Directors of Nanosonics Limited

The current Board consists of three non-executive directors and one executive director.

- Maurie Stang is non-executive Chairman who was appointed a Director on 14 November 2000.
- Geoff Marshall is the Chief Executive Officer who was appointed on 8 September 2005.
- David Fisher is a non-executive Director who was appointed on 30 July 2001.
- Bill Widin is a non-executive Director who was appointed on 8 March 2007.

Biographies of each Director, including their qualifications and experience, are set out in the Information on Directors and Key Management Personnel on pages 14 and 15 of this Annual Report.

Mr Stang is not considered to be an independent Director as he is a founder of the Company, he held executive office in the Company until March 2007 and he is a significant shareholder in the Company (see page 59 of this Annual Report). Mr Stang is also a director and/or shareholder of companies with which the Company had significant transactions during the year (see pages 46 and 47 of this Annual Report).

Mr Marshall is not considered to be an independent Director as he is an executive of the Company.

Dr Fisher may not be considered to be an independent Director only because of his association with major shareholders in the Company, where he is not in a position to influence their investment decisions (see Note 22(iv) on page 50 of this Annual Report). In all other respects Dr Fisher would be considered an independent Director.

Mr Widin is considered to be an independent Director.

The Board intends to appoint one or more suitably qualified and experienced independent Directors in the coming year.

Role of the Board

The role of the Board is to provide strategic guidance to the Company and to provide effective oversight of its management for the benefit of shareholders and other stakeholders. The Board meets regularly in accordance with an agreed schedule and special meetings are held as required. 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 continuously reviews its own performance and mix of skills to ensure that they allow the Board to maximise its effectiveness and contribution to the Company. Directors and the Board have the right, in connection with their duties and responsibilities, to obtain independent professional advice at the Company's expense. The Board retains ultimate authority over the management of the Company; however day-to-day management of the Company'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 Company's Corporate Governance Charter. The Board requires the CEO to present a formal report on the operations of the Company at each scheduled meeting of the Board. 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 Company and seek any information from any employee in order to perform his or her responsibilities.

CORPORATE GOVERNANCE STATEMENT

Committees of the Board

The Board is assisted in the discharge of its responsibilities by a number of Committees which are responsible for particular aspects of the operation of the Company. These Committees 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. Formal Charters setting out the objectives, scope and administration of each of the current Committees have been created. 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 any executive powers in respect of their findings and recommendations. The Board intends that each Committee has an independent director appointed as Chairman. Membership and performance of Board Committees is assessed at least once every year by those Committees and the Board.

The Committees of the Board at the date of this report and their membership are as follows:

	Audit and Risk Management Committee	Governance and Nomination Committee	Remuneration Committee
Chairman	Bill Widin	David Fisher	David Fisher
Members	David Fisher Maurie Stang	Maurie Stang Bill Widin	Maurie Stang Bill Widin

It is intended that Maurie Stang will stand down from his appointment to each of the Board Committees upon the appointment of an additional non-Executive Director.

Summaries of the roles and responsibilities of each of the current Committees follow.

Audit and Risk Management Committee

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 Company'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 Company's financial systems and reporting and for overseeing the independence of the Company's external auditor. The Chairman of the Committee is appropriately qualified and financially literate. The Committee regularly reports to the Board on all matters relevant to the responsibilities of the Committee.

Governance and Nomination Committee

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.

CORPORATE GOVERNANCE STATEMENT

Remuneration Committee

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 Company'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 Company, 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.

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 Company'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 website (see below).

Company Secretaries

The joint Company Secretaries are Chris Grundy, who is also Chief Financial Officer, and Robert Waring, who is a director of a company which provides secretarial and corporate advisory services to a number of listed and unlisted companies.

Code of Ethics

All Directors, executives, employees and consultants 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 Company's Code of Ethics.

Corporate Reporting

The Chief Executive Officer and Chief Financial Officer have jointly confirmed the following:

- That the financial reports contained in this Annual Report present a true and fair view of the Group's financial condition and operational results in accordance with applicable accounting standards and
- That the above statement is founded on effective systems of risk management and internal control consistent with Company policies.

Website

An important Company objective is that its corporate information, including reports and media releases, is complete, timely and available from its website: www.nanosonics.com.au.

Copies of the Company's Governance Charters and other governance information are available in the Investor Centre section of the website. These include the Company's:

- Constitution
- Terms of Appointment of non-Executive Directors
- Corporate Governance Charter
- Audit and Risk Management Committee Charter
- Governance and Nomination Committee Charter
- Remuneration Committee Charter
- Code of Ethics
- Securities Trading Policy

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007



	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue					
Government grants		2,221,304	1,365,853	2,221,304	1,365,853
Interest income		635,359	220,312	635,359	220,312
Other income		8,424	877,840	8,424	877,840
	3	2,865,087	2,464,005	2,865,087	2,464,005
Operating Expenses					
Staffing cost		3,470,617	1,387,176	3,470,617	1,387,176
R&D and external consultants		3,360,114	1,877,126	3,360,114	1,877,126
General and administration		1,349,723	804,061	1,349,723	804,061
Marketing, promotion and travel		388,157	158,488	388,157	158,488
		8,567,611	4,226,851	8,567,611	4,226,851
Operating (loss) before income tax expense	4	(5,703,524)	(1,762,846)	(5,703,524)	(1,762,846)
Income tax expense	5	-	-	-	-
Net loss after income tax expense attributable to members of the parent entity		(5,703,524)	(1,762,846)	(5,703,524)	(1,762,846)

(Loss) per share for losses attributable to ordinary shareholders of the Company:

	26	Cents	Cents
Basic (loss) per share		(4.3)	(1.7)
Diluted (loss) per share		(4.0)	(1.6)

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

BALANCE SHEETS
As at 30 JUNE 2007



	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets	6	31,906,432	6,590,153	31,906,429	6,590,150
Receivables	7	164,546	20,287	164,546	20,287
Other	8	366,466	65,501	366,466	65,501
TOTAL CURRENT ASSETS		32,437,444	6,675,941	32,437,441	6,675,938
NON-CURRENT ASSETS					
Investment in controlled entities	10	-	-	3	3
Property, plant and equipment	9	959,549	288,100	959,549	288,100
Other non-current assets	11	-	25,000	-	25,000
TOTAL NON-CURRENT ASSETS		959,549	313,100	959,552	313,103
TOTAL ASSETS		33,396,993	6,989,041	33,396,993	6,989,041
CURRENT LIABILITIES					
Payables	12	1,936,648	696,305	1,936,648	696,305
Provisions	13	143,134	81,694	143,134	81,694
TOTAL CURRENT LIABILITIES		2,079,782	777,999	2,079,782	777,999
NON-CURRENT LIABILITIES					
Borrowings	14	-	2,000,000	-	2,000,000
TOTAL NON-CURRENT LIABILITIES		-	2,000,000	-	2,000,000
TOTAL LIABILITIES		2,079,782	2,777,999	2,079,782	2,777,999
NET ASSETS		31,317,211	4,211,042	31,317,211	4,211,042
EQUITY					
Contributed equity	15	41,524,850	8,715,157	41,524,850	8,715,157
Accumulated (losses)		(10,207,639)	(4,504,115)	(10,207,639)	(4,504,115)
TOTAL EQUITY		31,317,211	4,211,042	31,317,211	4,211,042

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 2007**



Consolidated	Notes	Issued Capital	Share Option Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$
At 1 July 2005		2,000,910	-	(2,741,269)	(740,359)
Loss for the year		-	-	(1,762,846)	(1,762,846)
Issue of share capital		6,714,247	-	-	6,714,247
At 30 June 2006		8,715,157	-	(4,504,115)	4,211,042
Loss for the year		-	-	(5,703,524)	(5,703,524)
Issue of share capital		32,168,848	-	-	32,168,848
Share issue Cost		(1,885,994)	-	-	(1,885,994)
Capitalisation of loan	14	2,000,000	-	-	2,000,000
Share options granted	27(g)	-	526,840	-	526,840
At 30 June 2007	15	40,998,010	526,840	(10,207,639)	31,317,211

Parent	Notes	Issued Capital	Share Option Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$
At 1 July 2005		2,000,910	-	(2,741,269)	(740,359)
Loss for the year		-	-	(1,762,846)	(1,762,846)
Issue of share capital		6,714,247	-	-	6,714,247
At 30 June 2006		8,715,157	-	(4,504,115)	4,211,042
Loss for the year		-	-	(5,703,524)	(5,703,524)
Issue of share capital		32,168,848	-	-	32,168,848
Share issue Cost		(1,885,994)	-	-	(1,885,994)
Capitalisation of loan	14	2,000,000	-	-	2,000,000
Share options reserve	27(g)	-	526,840	-	526,840
At 30 June 2007	15	40,998,010	526,840	(10,207,639)	31,317,211

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007



	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from government grants		1,814,942	1,651,809	1,814,942	1,651,809
Payments to suppliers and employees		(6,995,173)	(3,362,409)	(6,995,173)	(3,362,409)
Interest received		593,835	190,537	593,835	190,537
Finance costs		-	(16,263)	-	(16,263)
Net cash (used in) operating activities	23(b)	(4,586,396)	(1,536,326)	(4,586,396)	(1,536,326)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of assets		(711,655)	(120,340)	(711,655)	(120,340)
Net cash (used in) investing activities		(711,655)	(120,340)	(711,655)	(120,340)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares and options		30,614,330	6,714,247	30,614,330	6,714,247
Proceeds from loans repaid		-	1,200,000	-	1,200,000
Loans made to third party		-	(1,200,000)	-	(1,200,000)
Net cash provided by (used in) financing activities		30,614,330	6,714,247	30,614,330	6,714,247
Net increase (decrease) in cash held		25,316,279	5,057,581	25,316,279	5,057,581
Cash at the beginning of the financial year		6,590,153	1,532,572	6,590,150	1,532,569
Cash at the end of the financial year	23(a)	31,906,432	6,590,153	31,906,429	6,590,150

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

1. Corporate Information

The financial report on pages 27 to 56 covers Nanosonics Limited (the Company) as an individual parent entity and the consolidated entity consisting of Nanosonics Limited and its subsidiary (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 on pages 2 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 22 August 2007. The Company has the power to amend and reissue the financial report.

2. 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.

2. Summary of Significant Accounting Policies (continued)

(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 2007 and the results of its subsidiaries for the year then ended. Nanosonics Limited and its subsidiaries together are referred to in this financial report as the Group or consolidated entity.

A subsidiary is an entity (including a special purpose entity) 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 10 to the financial statements.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Subsidiaries 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 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 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 as part of the fair value gain or loss.

2. Summary of Significant Accounting Policies (continued)

(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 revenue is recognised on a time proportion basis using the effective interest method.

(g) 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.

(h) Income Tax – Note 5

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 or 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.

2. Summary of Significant Accounting Policies (continued)

(h) Income Tax (continued)

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.

(i) Leased assets

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 (note 18). 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.

(j) Borrowing costs

Borrowing costs include interest or finance charges in respect of finance leases. Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs. Borrowing costs are expensed as incurred.

(k) Earnings per share – Note 26

(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.

2. Summary of Significant Accounting Policies (continued)

(l) 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.

(m) Financial instruments

Recognition

Financial instruments are initially measured at cost, which includes transactions costs, on trade date when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial Liabilities

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms-length transactions, reference to similar instruments and option pricing models.

(n) 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.

(o) Acquisition of assets

All assets acquired, including plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Acquired in-process development is only recognised as a separate asset when future benefits are expected beyond any reasonable doubt to be recoverable and the cost of the item can be measured reliably. The carrying amount of any item replaced is derecognised. Repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

2. Summary of Significant Accounting Policies (continued)

(p) 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.

(q) Receivables

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

(r) 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:

	2007	2006
Laboratory Fit-out	16.67%	16.67%
Laboratory Equipment	7.5% - 20%	7.5% - 20%
Office Furniture and Equipment	7.5% - 66.67%	7.5% - 66.67%
Leasehold Improvement	11.25%	11.25%

(s) Investments

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

(t) Intangible assets

(i) *Research and development*

Research and development expenditure is expensed as incurred except to the extent that the recoverability of development expenditure, relating to the design and testing of new or improved products, is assured beyond reasonable doubt, 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.

2. Summary of Significant Accounting Policies (continued)

(u) Payables

Liabilities are recognised for the amounts to be paid in the future for goods and services received. Trade accounts payable are unsecured and are normally settled within 60 days.

(v) Provisions

Provisions for legal claims, service warranties and make-good 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.

(x) Employee benefits

Wages, salaries, annual leave and carer's leave

Liabilities for employee benefits, including wages, salaries and non-monetary benefits, annual leave and accumulating carer's leave represent present obligations resulting from employees' services provided to reporting date. Employee benefits expected to be settled within one year together have been measured at the amounts expected to be paid when the liability is settled. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Superannuation plan

Contributions are made by the Group to employee superannuation funds and are charged as expenses as incurred.

Long service leave

The liability for long-service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Share-based compensation benefits are provided to employees via the Nanosonics Employee Share Option Plan ("ESOP"). Information relating to this scheme is set out in note 27.

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.

(y) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007



	Notes	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
3. Revenue					
Government grants		2,221,304	1,365,853	2,221,304	1,365,853
R&D expense off-set		-	809,715	-	809,715
Interest income		635,359	220,312	635,359	220,312
Other income		8,424	68,125	8,424	68,125
		2,865,087	2,464,005	2,865,087	2,464,005

4. Loss before income tax expense

The loss from ordinary activities before income tax includes:

Expenses

Depreciation	160,263	98,609	160,263	98,609
Research and development costs	3,360,114	1,877,126	3,360,114	1,877,126
Bank Charges and Interest	-	16,263	-	16,263
Rental expenses relating to operating leases	165,521	109,959	165,521	109,959
Share options expense	526,840	-	526,840	-

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	11,000	6,000	11,000	6,000
Services other than statutory audit	10,025	10,910	10,025	10,910

5. Taxation

(a) Income tax expense

Loss from ordinary activities	5,703,524	1,762,846	5,703,524	1,762,846
The prima facie income tax benefit applicable to the operating profit (loss) is calculated at 30% (2006: 30%)	1,711,057	528,854	1,711,057	528,854
Tax effect of amounts which are not deductible in calculating taxable income:				
Sundry items	(100,762)	-	(100,762)	-
Future income tax benefit not booked	(1,610,295)	(528,854)	(1,610,295)	(528,854)
Income tax attributable to operating loss	-	-	-	-

5. Taxation (continued)

Notes	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$

(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 not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

Estimated tax losses carried forward	9,652,971	4,285,320	9,652,971	4,285,320
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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 in realising the benefit

6. Cash assets

Cash at bank and on hand	527,073	289,717	527,070	289,714
Deposits on call	31,379,359	6,300,436	31,379,359	6,300,436
23(a)	31,906,432	6,590,153	31,906,429	6,590,150

7. Receivables

Trade debtors	-	5,981	-	5,981
GST receivable	158,519	8,278	158,519	8,278
Other debtors	6,027	6,028	6,027	6,028
	164,546	20,287	164,546	20,287

8. Other current assets

Prepayments	40,049	14,364	40,049	14,364
Government grant receivable	165,857	-	165,857	-
Interest income receivable	63,978	37,196	63,978	37,196
Deposits and bonds	56,840	13,941	56,840	13,941
Related party receivable (Notes 11&21(iv))	39,742	-	39,742	-
	366,466	65,501	366,466	65,501

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007



	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
9. Property plant and equipment				
Laboratory fit-out				
At cost	325,927	317,032	325,927	317,032
Accumulated depreciation	(278,229)	(224,584)	(278,229)	(224,584)
	47,698	92,448	47,698	92,448
Laboratory equipment				
At cost	184,601	105,573	184,601	105,573
Accumulated depreciation	(94,763)	(67,986)	(94,763)	(67,986)
	89,838	37,587	89,838	37,587
Office furniture & equipment				
At cost	549,653	199,634	549,653	199,634
Accumulated depreciation	(144,959)	(78,044)	(144,959)	(78,044)
	404,694	121,590	404,694	121,590
Leasehold improvements				
At cost	285,341	36,679	285,341	36,679
Accumulated depreciation	(12,772)	(204)	(12,772)	(204)
	272,569	36,475	272,569	36,475
Manufacturing equipment				
At cost	144,751	-	144,751	-
Accumulated depreciation	-	-	-	-
	144,751	-	144,751	-
Total plant and equipment net book value	959,549	288,100	959,549	288,100

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007



	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
9. Property plant and equipment (continued)				
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	92,448	143,576	92,448	143,576
Additions	10,608	-	10,608	-
Disposals	(1,713)	-	(1,713)	-
Depreciation	(53,645)	(51,128)	(53,645)	(51,128)
Carrying amount at end of year	47,698	92,448	47,698	92,448
Laboratory equipment				
Carrying amount at beginning of year	37,587	53,035	37,587	53,035
Additions	79,028	4,920	79,028	4,920
Disposals	-	-	-	-
Depreciation	(26,777)	(20,368)	(26,777)	(20,368)
Carrying amount at end of year	89,838	37,587	89,838	37,587
Office furniture & equipment				
Carrying amount at beginning of year	121,590	69,758	121,590	69,758
Additions	350,019	78,741	350,019	78,741
Disposals	-	-	-	-
Depreciation	(66,915)	(26,909)	(66,915)	(26,909)
Carrying amount at end of year	404,694	121,590	404,694	121,590
Leasehold improvements				
Carrying amount at beginning of year	36,475	-	36,475	-
Additions	248,662	36,679	248,662	36,679
Disposals	-	-	-	-
Depreciation	(12,568)	(204)	(12,568)	(204)
Carrying amount at end of year	272,568,72	36,475	272,568,72	36,475
Manufacturing equipment				
Carrying amount at beginning of year	-	-	-	-
Additions	144,751	-	144,751	-
Disposals	-	-	-	-
Depreciation	-	-	-	-
Carrying amount at end of year	144,751	-	144,751	-
Total plant and equipment net book value	959,549	288,100	959,549	288,100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007



10. Controlled Entities

Particulars in relation to controlled entities

Name of controlled Entity	Country of Incorporation	Class of Shares	Equity holding 2007 %	2006 %
Saban Ventures Pty Limited	Australia	Ordinary	100	100

	Notes	Consolidated 2007 \$	2006 \$	Parent Entity 2007 \$	2006 \$
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11. Non-current asset – Receivable

Related party receivable	21 (iv)	-	25,000	-	25,000
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12. Payables

Trade creditors	821,850	518,140	821,850	518,140
Other creditors – accrued charges	1,114,798	178,165	1,114,798	178,165
	1,936,648	696,305	1,946,648	696,305

13. Provisions

Current

Employee benefits	143,134	81,694	143,134	81,694
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14. Borrowings

Loans	-	2,000,000	-	2,000,000
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On 17th May 2007, following the listing of the Company's shares on the Australian Securities Exchange and in terms of an agreement dated 14 December 2001, the loan of \$2,000,000 from 3M Company Inc was converted to 4 million new shares in the Company that rank equally with all other shares on issue. (Note 15)

15. Contributed Equity

Share capital

194,319,243 Ordinary fully paid shares (2006: 12,253,565*)	41,524,850	8,715,157	41,524,850	8,715,157
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*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.
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

15. Contributed Equity (continued)

	Consolidated		Parent Entity	
	Number of shares	\$	Number of shares	\$
Movements in ordinary shares on issue				
At 1 July 2005	10,000,000	2,000,910	10,000,000	2,000,910
Shares issued:	46,450	92,900	46,450	92,900
Shares issued:	2,207,115	6,621,347	2,207,115	6,621,347
At 30 June 2006	12,253,565	8,715,157	12,253,565	8,715,157
10:1 Share split*	110,282,085	-	110,282,085	-
Shares issued:	13,783,593	5,168,847	13,783,593	5,168,847
Less: share issue costs	-	(101,826)	-	(101,826)
Share option reserve (Note 24(g))	-	526,840	-	526,840
Shares issued:	54,000,000	27,000,000	54,000,000	27,000,000
Less: share issue costs	-	(1,784,168)	-	(1,784,168)
Capitalisation of loan (Note 14)	4,000,000	2,000,000	4,000,000	2,000,000
At 30 June 2007	194,319,243	41,524,850	194,319,243	41,524,850

16. Financial Instruments

(a) Interest rate risk exposures

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates.

Fixed interest rate maturing in:							
2007	Notes	Floating Interest Rate	1 Year or Less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets:							
Cash assets	6	31,906,229	-	-	-	203	31,906,432
Receivables	7	-	-	-	-	164,546	164,546
Other	8	-	-	-	-	326,724	326,724
		31,906,229	-	-	-	491,473	32,397,702
Weighted average interest rate		6.00%					
Financial liabilities:							
Payables	12	-	-	-	-	1,936,648	1,936,648
Provisions	13	-	-	-	-	143,134	143,134
		-	-	-	-	2,079,782	2,079,782
Weighted average interest rate		-					
Net financial assets (liabilities)		31,906,229	-	-	-	(1,588,309)	30,317,920

16. Financial Instruments (continued)

		Fixed interest rate maturing in:					
2006		Floating Interest Rate	1 Year or Less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
	Notes						
Financial assets:							
Cash assets	6	6,589,950	-	-	-	203	6,590,153
Receivables	7	-	-	-	-	20,287	20,287
Other	8	-	-	-	-	65,501	65,501
		6,589,950	-	-	-	85,991	6,675,941
Weighted average interest rate		4.65%					
Financial liabilities:							
Payables	12	-	-	-	-	696,305	696,305
Provisions	13	-	-	-	-	81,694	81,694
		-	-	-	-	777,999	777,999
Weighted average interest rate		-					
Net financial assets (liabilities)		6,589,950	-	-	-	(692,008)	5,897,942

(b) Foreign exchange risk

The consolidated entity is not exposed to fluctuations in foreign currencies.

(c) Credit Risk Exposures

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The Group does not have any material credit risk exposure to any single receivable.

(d) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the Group approximates their carrying value. The Directors are of the opinion that no material difference exists between carrying amounts and fair values of financial assets and liabilities at 30 June 2007.

17. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report.

	Note	Consolidated 2007 \$	2006 \$	Parent Entity 2007 \$	2006 \$
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18 Capital and leasing commitments

Non-cancellable Capital expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

Within one year	327,324	-	327,324	-
One year or 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	214,837	124,328	214,837	124,328
One year or later and no later than five years	362,701	82,314	362,701	82,314
	904,862	206,642	904,862	206,642

19. Contingent Liabilities and Assets

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

	Interest rate applicable to repayments	Total grant income received to 30 June 2007
R&D Start Grant	5.395%	\$1,888,838
Commercial Ready Grant	5.665%	\$2,158,878

Contingent liabilities

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, 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 2007.

Contingent asset

Variations to the original planned activities subject to the Commercial Ready Grant resulted in additional expenditure being incurred on the project. The Company has applied for additional income under an extension to the grant to off-set the additional expenditure included in the operating result for the year to 30 June 2007. In the event that the application for the extension is approved, the amount of \$376,832 in respect of expenditure to 30 June 2007 will be paid to the Company. As at the date of this report, the result of the Company's application for extension has not been determined. Accordingly, this amount represents a contingent asset as at 30 June 2007.

20. Employee benefits

Aggregate liability for employee benefits, including on-costs:

Payables	-	-	-	-
Employee benefits provision	143,134	81,694	143,134	81,694
Number of employees at year end	37	23	37	23

Superannuation commitments

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

21. Related Party Disclosure

A number of key management personnel, being specified directors, 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 reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms length basis.

The following table provides the total amounts of transactions that were entered into with related parties for the relevant financial year:

		30 June 2007	30 June 2006
		\$	\$
Director related entities	Transaction		
Aeris Technologies Ltd	Services provided	5,138	27,777
	Services received	7,740	-
	Loans made	-	1,200,000
	Loans repaid	-	(1,200,000)
Novapharm Research (Australia) Pty Ltd	Service provided	51,526	129,515
Ramlist Pty Limited	Rent expense	98,081	76,654
GMA Ltd	Services provided	-	59,806
Gryphon Capital Pty Ltd	Services provided	16,667	-
Iotech Pty Ltd	Services provided	-	100,537
Medi-Consumables Pty Ltd	Services provided	438,839	161,699
Novatech Pty Ltd	Services provided	-	22,572
Regional Health Trading Pty Ltd	Laboratory supplies	-	108,525
Australian Biomedical Fund No.2 Limited	Interest received	14,742	-

21. Related Party Disclosure (continued)

Assets and liabilities arising from the above Director related transactions	30 June 2007 \$	30 June 2006 \$
Assets		
Aeris Technologies Pty Ltd	-	2,325
Australian Biomedical Fund No.2 Ltd	39,742	25,000
Novapharm Research (Australia) Pty Ltd	-	3,113
Liabilities		
Gryphon Capital Pty Ltd	16,667	-
Medi-Consumables Pty Ltd	39,561	2,973
Novapharm Research (Australia) Pty Ltd	6,996	1,725
Novatech Pty Ltd	-	20,520

Notes on related party transactions and the assets and liabilities arising from those transactions:

- i) Mr M Stang, Mr B Stang and Mr S Kritzler are directors and shareholders of Aeris Technologies Ltd, Iotech Pty Ltd, Novapharm Research (Australia) Pty Ltd, Novatech Pty Ltd, Regional Health Trading Pty Ltd and Medi-Consumables Pty Ltd.
- ii) Mr B Stang is a director of Ramlist Pty Limited. Mr M Stang and Mr B Stang are shareholders of Ramlist Pty Limited.
- iii) Mr M Stang is a director and shareholder of Gryphon Capital Pty Ltd.
- iv) Dr D Fisher is a director of Brandon Capital Management Pty Ltd ("Brandon") which manages Australian Biomedical Fund No.2 Ltd ("ABF No.2 Ltd"), a holder of 2,158,149 shares in Nanosonics Limited ("Company"). ABF No.2 Ltd is a debtor to the Company in respect of an interest-bearing loan owing of \$39,742 (refer Note 8). The loan is repayable on or before to 30 June 2008.
- v) Mr G Marshall is a director and shareholder of GMA Ltd.

22. 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 Geoff Marshall *Managing Director and CEO*
 Dr David Fisher *Non-Executive Director*
 Mr William (Bill) Widin *Non-Executive Director* (appointed 8 March 2007)
 Dr Alexei Sava *Non-Executive Director* (resigned 12 December 2006)
 Mr Steven Kritzler *Non-Executive Director* (resigned 21 March 2007)
 Mr Bernard Stang *Non-Executive Director* (resigned 21 December 2007)

(b) Other 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 Olé Stockhausen *General Manager, Global Market & Business Development*
 Ms Rachael Moore *General Manager, Product Development & Manufacturing*
 Mr John Murtagh *General Manager, Business Systems & Regulatory Affairs* (appointed 24 July 2006)
 Mr Chris Grundy *Chief Financial Officer & Company Secretary* (appointed 4 June 2007)
 Mr Radek Mierzejewski *Acting Chief Financial Officer & Company Secretary* (appointed 19 July 2006)
 Mr Robert Waring *Company Secretary*

All of the above persons were also key management persons during the year ended 30 June 2006, except for:

Ms Rachael Moore (appointed 27 March 2006)
 Mr John Murtagh (appointed 24 July 2006)
 Mr Chris Grundy (appointed 4 June 2007)
 Mr Radek Mierzejewski (appointed 19 July 2006)
 Mr Robert Waring (appointed 25 October 2005)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**



(c) Directors and other key management personnel compensation

	Group and Company	
	2007	2006
	\$	\$
Director fees	38,685	-
Consultant fees	58,984	130,498
Short term employee benefits	866,628	539,432
Post-employment benefits	63,714	32,713
Share based payments	147,072	9,990
Total Compensation	\$1,175,083	\$712,633

Mr Radek Mierzejewski was Acting Chief Financial Officer and also acted jointly with Mr Robert Waring as Company Secretary. Mr Mierzejewski is an employee of Medi-Consumables Pty Ltd and he was not remunerated directly by Nanosonics Limited for his services to the Company. An amount of \$438,839 (2006: \$161,699) was paid to Medi-Consumables Pty Ltd for a range of products and services provided by that company to Nanosonics Limited, including the services of Mr Mierzejewski. This amount is excluded from the amounts of key management personnel compensation and is referred to in Note 21 Related Party Disclosure.

The Company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has 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 19 to 22 of this Annual Report.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options provided as remuneration, together with terms and conditions of the options, can be found in sections 5 and 7 of the remuneration report on pages 19 to 21. No such options were exercised and therefore no shares were issued on the exercise of the options.

(ii) Option holdings

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

2007

Option holdings	Balance at start of the year	Granted as compensation	Other changes	Exercised	Balance at end of the year	Vested and exercisable	Unvested or not exercisable *
Name							
Directors							
M Stang	-	-	-	-	-	-	-
G Marshall *	-	1,650,000	-	-	1,650,000	-	1,650,000
D Fisher *	547,700	-	-	-	547,700	-	547,700
W Widin *	278,340	-	-	-	278,340	-	278,340
A Sava	-	-	-	-	-	-	-
S Kritzler	-	-	-	-	-	-	-
B Stang	-	-	-	-	-	-	-
Other key management personnel							
R Weinberger	-	1,175,000	-	-	1,175,000	-	1,175,000
O Stockhausen	-	625,000	-	-	625,000	-	625,000
R Moore	-	490,000	-	-	490,000	-	490,000
J Murtagh	-	465,000	-	-	465,000	-	465,000
C Grundy	-	-	-	-	-	-	-
R Mierzejewski	30,000	150,000	-	-	180,000	30,000	150,000
R Waring	71,500	175,000	-	-	246,500	71,500	175,000

22. Key Management Personnel Disclosures (continued)

* All options owned by each of Mr G Marshall, Dr D Fisher and Mr W Widin as at 30 June 2007 have been classified as restricted securities by the Australian Securities Exchange and are to be held in escrow for a period of 24 months ending 17 May 2009.

2006

Option holdings	Balance at start of the year	Granted as compensation	Other changes	Exercised	Balance at end of the year	Vested and exercise able	Unvested
Name							
Directors							
M Stang	-	-	-	-	-	-	-
G Marshall	-	-	-	-	-	-	-
D Fisher	547,700	-	-	-	547,700	547,700	-
A Sava	-	-	-	-	-	-	-
S Kritzler	-	-	-	-	-	-	-
B Stang	-	-	-	-	-	-	-
Other key management personnel							
R Weinberger	-	-	-	-	-	-	-
O Stockhausen	-	-	-	-	-	-	-
R Moore	-	-	-	-	-	-	-
R Waring	-	16,500	55,000	-	71,500	71,500	-

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 other key management personnel 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.

2007

Share holdings	Note	Balance at start of the year Note (i)	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 Note (vi)
Name						
Directors						
M Stang	ii, iii	27,386,000	-	991,000	28,377,000	28,377,000
G Marshall		-	-	40,000	40,000	-
D Fisher	iv	396,726	-	-	396,726	295,491
W Widin	v	835,000	-	950,000	1,785,000	1,284,000
A Sava		9,128,670	-	(8,000,000)	1,128,670	1,128,670
S Kritzler	iii	27,386,000	-	290,000	27,676,000	27,676,000
B Stang	ii, iii	27,386,000	-	1,166,000	28,552,000	28,552,000
Other key management personnel						
R Weinberger		-	-	-	-	-
O Stockhausen		-	-	-	-	-
R Moore		-	-	6,000	6,000	-
J Murtagh		-	-	-	-	-
C Grundy		-	-	20,000	20,000	-
R Mierzejewski		90,000	-	140,000	230,000	60,000
R Waring		49,500	-	-	49,500	-

22. Key Management Personnel Disclosures (continued)

2006

Share holdings	Note	Balance at start of the year Note (i)	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year Note (i)
Name					
Directors					
M Stang	ii	27,386,000	-	-	27,386,000
G Marshall		-	-	-	-
D Fisher		-	-	396,726	396,726
A Sava		9,128,670	-	-	9,128,670
S Kritzler		27,386,000	-	-	27,386,000
B Stang	ii	27,386,000	-	-	27,386,000
Other key management personnel					
R Weinberger		-	-	-	-
O Stockhausen		-	-	-	-
R Moore		-	-	-	-
R Waring		-	-	49,500	49,500

Notes on shareholdings of key management personnel.

- Shareholdings as at 30 June 2005 and 30 June 2006 have been restated to give effect to the 10:1 split in the number of shares that was approved at a General Meeting of shareholders on 19 September 2006.
- Mr M Stang (*Non-Executive Chairman*) and Mr B 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 the Corporations Act.
- All shares held by Mr M Stang, Mr B Stang and Mr S Kritzler are classified as restricted securities – see note (vi) below.
- The share interests of Dr D Fisher (*Non-Executive Director*) are held by Brandon Capital Management Pty Ltd ("Brandon"), a company of which Dr Fisher is a director, and include 295,491 shares classified as restricted securities – see note (vi) below. Brandon manages three investment funds independent of Brandon (each a "Fund") that in aggregate hold 8,469,604 shares in the Company. 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 of the Funds' shares.
- The share interests of Mr W Widin (*Non-Executive Director*) are held by Darlington Weir Pty Ltd, a company of which Mr Widin is a director and shareholder, and include 1,284,000 shares classified as restricted securities – see note (vi) below.
- In May 2007, the holders of certain shares classified by the Australian Securities Exchange (ASX) as restricted securities, including those referred to in notes (iii), (iv) and (v) above, entered into restricted security arrangements in accordance with the requirements of the ASX Listing Rules whereby they 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 www.nanosonics.com.au or from the Company Secretary.

(e) Loans to key management personnel

During the financial year and to the date of this report, the Group made no loans to key management personnel and none were outstanding at the year ended 30 June 2007, except for the loan referred to in Note 21(iv) and Note 11 to these accounts.

23. Notes to the Cash Flow Statements

(a) Reconciliation of cash

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash and deposits on call	31,906,432	6,590,153	31,906,429	6,590,150

For the purposes of the Cash Flows Statements, cash includes cash on hand and at bank and short term deposits at call, 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	(5,703,524)	(1,762,846)	(5,703,524)	(1,762,846)
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Adjustment for:

Depreciation and amortisation	159,905	98,609	159,905	98,609
Share based payments	526,840	-	526,840	-
Forgiveness of debt	-	(809,715)	-	(809,715)
Unrealised gain / loss on foreign exchange	-	-	-	-

Changes in assets and liabilities

(Increase)/decrease in receivables	(144,259)	414,820	(144,259)	414,820
(Increase)/decrease in other current assets	(275,966)	(51,310)	(275,966)	(51,310)
Increase/(Decrease) in creditors and borrowings	734,166	448,080	734,166	448,080
Increase/(Decrease) in provisions	61,440	30,816	61,440	30,816
Increase/(Decrease) in other liabilities	55,002	95,220	55,002	95,220

Net cash used in operating activities	(4,586,396)	(1,536,326)	(4,586,396)	(1,536,326)
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(c) Credit Standby Arrangements unused

Unused credit facility	-	-	-	-
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24. Non-cash investing and financing activities

	Consolidated		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Capitalisation of non-current loan as contributed equity	2,000,000	-	2,000,000	-

On 17th May 2007, following the listing of the Company's shares on the Australian Securities Exchange and in terms of an agreement dated 14 December 2001, the loan of \$2,000,000 from 3M Company Inc was converted to 4 million new shares in the Company that rank equally with all other share on issue. (Notes 14 & 15)

25. Segment Reporting

Business segments

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

Geographical segments

Geographically, the Company operates exclusively within the Australian market. Operations in Europe have not yet commenced.

26. Earnings (Loss) per share

	Consolidated	
	2007	2006
	Cents	Cents
(a) Basic earnings (loss) per share		
Loss attributable to ordinary shareholders of the Company	(4.3)	(1.7)
(b) Diluted earnings (loss) per share		
Loss attributable to ordinary shareholders of the Company	(4.0)	(1.6)
(c) Earnings (losses) used in calculating earnings (loss) per share		
Net loss after income tax expense attributable to shareholders	\$(5,703,524)	\$(1,762,846)
(d) Weighted average number of shares used		
For basic earnings per share	133,764,768	104,754,096
For diluted earnings per share	143,589,324	106,886,781
(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 27.		
Share split		
Earnings/(loss) per share have been stated after adjustment for a 10 for 1 split in the number of ordinary shares that was approved at the general meeting dated 19 September 2006.		

27. Share based payments

(a) Option Plans

The establishment of both the Nanosonics Employee Share Option Plan (ESOP) and the Nanosonics General Option Plan (GOP) was approved by the Directors on 2 April 2007. Under the plans, participants are granted options which vest in three equal amounts on each of the first three anniversaries of the later of the Company's listing date on 17th 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.

(b) 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.

(c) General Option Plan

The General 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.

(d) 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 27(e) below.

(e) Options granted

Set out below are summaries of options granted under the plans:

Option type *	GOP	GOP	GOP	ESOP	GOP	ESOP
Exercise price	\$0.20	\$0.30	\$0.20	\$0.20	\$0.20	\$0.75
Grant date	July 2001	Apr 2006	Apr 2006	Apr 2007	Apr 2007	Apr 2007
Assessed fair value at grant date	**	**	\$0.145	\$0.240	\$0.240	\$0.085
Expiry date	31 Oct 2007	30 Sep 2008	30 Sep 2008	17 May 2011	17 May 2011	17 May 2011
Number at start of the year	547,700	7,358,400	154,840	-	-	-
Number granted during the year	-	-	-	5,085,000	1,710,000	1,565,000
Number exercised during the year	-	-	-	-	-	-
Number forfeited during the year	-	-	-	-	-	-
Number at end of the year	547,700	7,358,400	154,840	5,085,000	1,710,000	1,565,000
Number vested and exercisable at end of the year	547,700	7,358,400	154,840	-	-	-

* ESOP signifies options granted under the Nanosonics Limited Employee Share Option Plan.

* GOP signifies options granted under the Nanosonics Limited General Share Option Plan.

** These options were part of a capital raising programme and have no separate value at grant date.

No options expired during the periods covered by the above tables.

All options granted to the date of this report are unquoted.

27. Share based payments (continued)

f) 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 model inputs for options granted during the years ended 30 June 2006 and 30 June 2007 included:

Option type *	GOP	ESOP	GOP	ESOP
Exercise price	\$0.20	\$0.20	\$0.20	\$0.75
Grant date	Apr 2006	Apr 2007	Apr 2007	Apr 2007
Expiry date	30 Sep 2008	17 May 2011	17 May 2011	17 May 2011
Estimated share price at grant date	\$0.30	\$0.375	\$0.375	\$0.375
Expected price volatility of the company's shares	45.73%	45.73%	45.73%	45.73%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	5.42%	6.17%	6.17%	6.17%

* ESOP signifies options granted under the Nanosonics Limited Employee Share Option Plan.

* GOP signifies options granted under the Nanosonics Limited General Share Option Plan.

(g) Recognition of expense of options granted

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 expensed on a straight line monthly basis over the period between grant date and the date of which the options all vest.

General Option Plan (GOP)

The assessed fair values of options granted under the GOP 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.

The assessed values of options granted to the date of this report have been or will be taken as an expense in the following financial years (Note 4):

Option type	2006 *	2007 *	2008	2009	2010
ESOP	-	\$93,988	\$451,142	\$451,142	\$357,154
GOP	-	\$432,852	-	-	-
Total Expense	\$ -	\$526,840	\$451,142	\$451,142	\$357,154

An amount equivalent to the value of options expensed is taken to shareholders' equity as a share option reserve (Note 15).

* The expense for 2007 includes an adjustment for \$22,452 in respect of the expense for General Options granted in 2006.

28. Events Subsequent to Reporting Date

A German subsidiary company, Nanosonics Europe GmbH, has been incorporated with initial share capital of €25,000 being paid by the Company in July 2007. The German subsidiary conducted no activities to the date of this report.

No other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

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

**DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2007**



The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 27 to 55, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001;
 - (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the financial year ended on that date of the Company and the Group;
2. the Chief Executive Officer and the Chief Financial Officer have each declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001; and
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view;
3. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in black ink, appearing to read "David Fisher".

David Fisher
Director

Sydney, 22 August 2007



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 2007, 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 19 and 20 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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Chartered Accountants
Incorporating Solomon Levy & Associates

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.

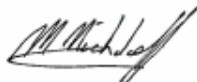
Independence

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 22 August, would be in the same terms if provided to the directors as at the date of this auditor's report.

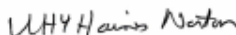
Audit Opinion

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 2007 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 19 and 20 of the directors' report comply with Accounting Standard AASB 124.



M. D. Nicholaieff
Partner



UHY Haines Norton
Chartered Accountants

Signed at Sydney on 22 August 2007

The shareholder information set out below was applicable as at 20 August 2007.

A. Distribution of equity securities

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

	Shares	Unquoted Options
1 – 1,000	27	-
1,001 – 5,000	165	10
5,001 – 10,000	288	2
10,001 – 100,000	803	68
100,001 and over	152	44
	1,435	124

There were 14 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest holders of quoted equity securities

The names of the twenty largest holders of quoted equity security holders are listed below:

	Ordinary shares	
	Number held	Percentage of issued shares
Bernie Stang	28,552,000	14.68
Maurie Stang	28,377,000	14.59
Steven Kritzier	27,676,000	14.23
JP Morgan Nominees Australia Limited	9,081,781	4.67
National Nominees Limited	5,542,387	2.85
Australian Biotechnology & Healthcare Fund No.3 Limited	4,148,980	2.13
3M Company	4,000,000	2.06
Asia Union Investments Pty Limited	2,200,000	1.13
Australian Biomedical Fund No.1 Limited	2,162,475	1.11
Australian Biomedical Fund No.2 Limited	2,158,149	1.11
HSBC Custody Nominees (Australia) Limited	2,081,422	1.07
Darlington Weir Pty Limited	1,785,000	0.92
Bank Insinger de Beaufort Safe Custody NV	1,733,333	0.89
Pildra Investments Pty Limited	1,606,667	0.83
Cogent Nominees Pty Limited	1,598,271	0.82
Bennelong Resources Pty Limited	1,500,000	0.77
Catholic Church Insurances Limited	1,500,000	0.77
Bevan Holdings Pty Limited	1,262,487	0.65
RBC Dexia Investor Services Australia Nominees Pty Limited	1,248,019	0.64
ANZ Nominees Limited	1,210,096	0.62
Total of 20 largest holders	129,124,067	66.38
Total of all other holders	65,411,856	33.62
Total shares on issue	194,535,923	100.00

B. Equity security holders (continued)

Unquoted equity securities – options granted

	Number of unissued ordinary shares under the options	Number of Holders
General Share Option Plan to take up ordinary shares	9,654,260	78
Employee Share Option Plan to take up ordinary shares	6,915,000	46
	16,569,260	124

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares held	Percentage of total ordinary shares
Bernie Stang	28,552,000	14.69
Maurie Stang	28,377,000	14.60
Steven Kritzler	27,676,000	14.09
Wilson HTM Investment Group Limited	12,953,000	6.67

D. Restricted securities

Securities subject to mandatory Australian Securities Exchange (ASX) escrow are shown below:

	Shares	Unquoted Options
Escrow ending on 15 January 2008	3,405,929	-
Escrow ending on 17 May 2009 (see note below)	91,688,161	2,476,040

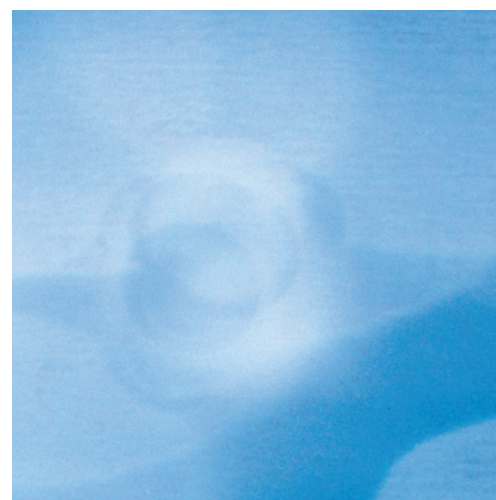
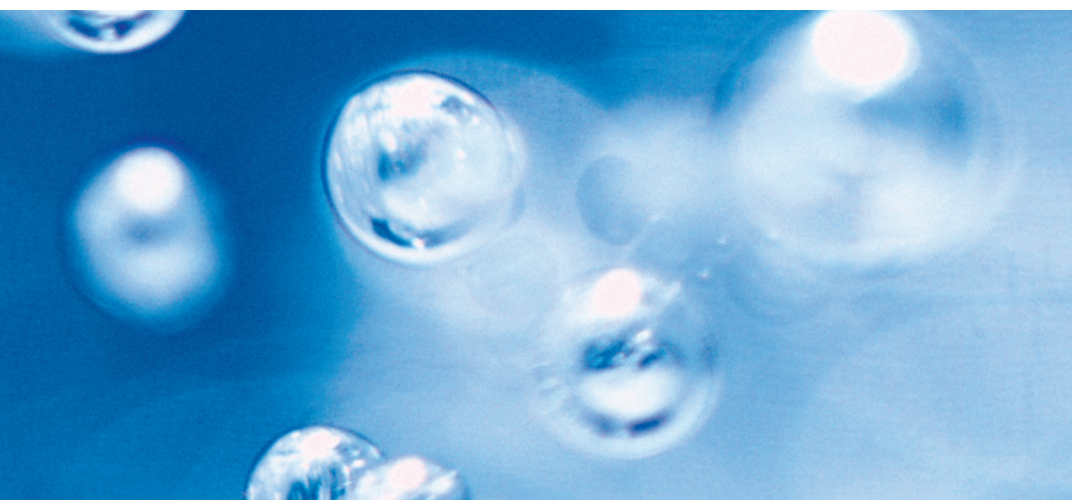
Escrow ending on 17 May 2009

The holders of certain shares, 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; www.nanosonics.com.au 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
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
No voting rights



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