



Innovating Technologies for Life

# **ITL Limited and Controlled Entities**

**ABN 16 088 212 088**

## **Appendix 4E**

**Preliminary final report**

**Full year ended 30 June 2006**

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## Results for announcement to the market

				<b>2006</b>		<b>2005*</b>
				<b>\$A'000</b>		<b>\$A'000</b>
<b>Revenues</b> from ordinary activities	up	29%	to	<b>31,274</b>	from	24,215
<b>Profit/(loss)</b> from ordinary activities <b>before income tax</b> attributable to members	up	1,080%	to	<b>3,695</b>	from	(377)
<b>Profit/(loss)</b> from ordinary activities <b>after income tax#</b> attributable to members	up	10,122%	to	<b>3,257</b>	from	(33)
Net profit/(loss) for the period attributable to members	up	10,122%	to	<b>3,257</b>	from	(33)

\* Adjusted for AIFRS

# It is expected that actual income tax to be paid by the group will be \$74,020.

<b>Dividends paid</b>	<b>2006</b>	<b>2005</b>
	<b>\$A</b>	<b>\$A</b>
Final dividend paid during the year	Nil	Nil
Interim dividend paid during the year	Nil	Nil
<b>Total dividends paid</b>	<b>Nil</b>	<b>Nil</b>

<b>Dividends paid or proposed</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Interim 2005/06 dividend	Nil	Nil
Final 2005/06 dividend	\$0.01	\$0.01
Record date for determining entitlements to the dividend		8/9/06

### Dividend reinvestment plan

The company has a dividend reinvestment plan which will apply to this dividend. Full details of this plan are disclosed in the Prospectus lodged with ASIC and the ASX on 17 September 2003. The directors have set the discount to 10% for the current dividend. The date for receipt of the election notice for participation in the dividend reinvestment plan is 29/9/06.

### Earnings per security (EPS)

	<b>2006</b>	<b>2005</b>
Basic EPS	\$0.032	\$0.000
Diluted EPS	\$0.031	\$0.000
Weighted average number or ordinary shares outstanding during the period used in the calculation of:		
Basic EPS	100,299,479	99,614,000
Diluted EPS	104,389,753	103,112,367

<b>Asset backing</b>	<b>2006 \$A</b>	<b>2005 \$A</b>
Net tangible asset (NTA) backing per ordinary security	0.146	0.142
Net asset backing per ordinary security	0.288	0.251

## **Review of Operations**

ITL has achieved a record result for the year following the restructure in the prior year. Revenue increased 29% from \$24.22 million to \$31.27 million, pretax profit improved from (\$377,000) loss to \$3.70 million profit and profit after providing for tax went from a loss of (\$33,000) to \$3.26 million profit. EBITDA after excluding non-recurrent income and expenses was \$4.92 million. Earnings per share were \$0.032 for the year.

The results show healthy growth in the second half to 30 June 2006 over the first half to 31 December 2005. Revenue grew 34% from \$13.34 million to \$17.94 million, pretax profit increased 82% from \$1.31 million to \$2.38 million and profit after tax 160% from \$0.91 million to \$2.35 million.

The improved performance was achieved through organic growth and acquisitions in accordance with ITL's strategic plan. The procedure kit business acquired at the time of listing increased revenue from \$14.55 million in 2005 to \$18.02 in 2006, while increasing both gross and net margins. **The \$2.63 million acquisition on 1 January 2006 of Heal Marketing Sdn Bhd, a leading Malaysian healthcare company and its wholly owned subsidiary, Heal Mediware Sdn Bhd added \$316,000 to the after tax profit.**

Heal supplies surgical and critical care products including medical equipment, instruments and consumables to Malaysian hospitals. This acquisition was a good strategic fit as it provides the opportunity to leverage Heal's distribution network to market a range of ITL's products in South East Asia. We have combined Heal into our Procedure Kit Division and renamed it the Hospital Supplies Division, to more accurately reflect the range of products sold into the hospital sector.

The Innovative Products Division secured existing sales by renewing supply contracts with the American Red Cross, the largest blood banking organisation in the world and Hema Quebec. The performance of this division was dampened in the first half by almost three months of minimal sales to its largest customer due to an internal reorganisation by the customer. ITL has successfully marketed its contract design and manufacturing services to a number of clients, mainly small Australian organisations that have developed innovative medical products.

ITL continues to be committed to ongoing development of innovative products. A further \$2.78 million was invested in product development, with \$1.29 million being funded by AusIndustry's R&D Start program. Our traditional market of blood banking is being extended to the laboratory and hospital markets with new safety products being developed under the Transfusion Infusion Needle

Assembly (TINA) project. The future is looking promising for the new range of safety products with prototypes receiving very strong support in focus groups in the US, UK and Australia. We are aiming to introduce the first of these products into the marketplace towards the end of the financial year.

**Associates and joint ventures**

The company did not have any associates or joint venture partners during the half-year.

This report is based on the audited consolidated financial report.

A handwritten signature in black ink, appearing to read 'W. Mobbs', is centered on a light pink rectangular background.

William L Mobbs  
Director  
10 August 2006



Innovating Technologies for Life

**ITL Limited**

ABN 16 088 212 088

# **Financial Report 2006**

## **ITL Limited and Controlled Entities**

**ABN 16 088 212 088**

### **DIRECTORS' REPORT**

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2006.

#### **Directors**

The names of directors in office at any time during or since the end of the year are:

*Non-executive directors:*

Mr Julian Gosse (Chairman)

Mr Richard England

Mr Roy Rose (from 1 September 2005)

*Executive directors:*

Mr William Mobbs (Managing Director and Chief Executive Officer)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

#### **Principal Activities**

The principal activities of ITL during the financial year were:

- Development and commercialisation of intellectual property relating to innovative medical devices
- Manufacture, distribution and sale of innovative medical devices
- Manufacture, distribution and sale of procedure packs
- Sale and service of medical equipment and instruments.

#### **Change in Principal Activity**

There were no significant changes in the nature of the economic entity's principal activities during the financial year except for the addition of the business of Heal Marketing, which includes sale and service of medical equipment and instruments.

#### **Operating Results**

The consolidated profit of the economic entity after providing for income tax of \$437,921 amounted to \$3,257,385. This result included non-recurring income of \$494,949, non-recurring expenses of \$153,822 and impairment of capitalised development costs and tools \$485,769. The tax payable on the result will vary significantly from the above amount due to the differences between tax expense calculated under Australian Equivalents to International Financial Reporting Standards (AEIFRS) and taxable income as calculated under the Income Tax legislation in the countries in which ITL operates. A reconciliation is shown in note 22 of the attached notes to the financial statements. We are expecting that income tax to be paid by the group will be \$74,020.

#### **Dividends Paid or Recommended**

No dividends were paid during the period to 30 June 2006.

A final fully franked dividend of \$0.01 per share was declared by the directors.

#### **Review of Operations**

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## **ITL Limited and Controlled Entities**

**ABN 16 088 212 088**

### **Directors' Report (Cont'd)**

#### **Review of Operations (Cont'd)**

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#### **Financial Position**

The net assets of the economic entity have increased by \$3,965,165 from \$25,041,539 at 30 June 2005 to \$29,006,704 in 2006. This increase has largely resulted from the profit for the year and the acquisition of Heal Marketing Sdn Bhd.

The group's working capital, being current assets less current liabilities, has increased by \$1,954,062 to \$12,131,409 from \$10,177,347. The current ratio has declined from 3.3 in 2005 to 2.4 in 2006.

The directors believe the group is in a strong and stable financial position to continue to grow its current operations.

#### **Significant Changes in State of Affairs**

The entity acquired the company Heal Marketing Sdn Bhd during the year. There were no other significant changes in the state of the affairs of the company.

#### **Adoption of Australian Equivalents to IFRS**

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

#### **After Balance Date Events**

Other than disclosed in Note 32 to the financial statements, no significant events occurred after balance date that would materially affect the financial statements and other information presented.

#### **Future Developments**

To further improve the economic entity's profit and maximise shareholder wealth the company will continue to review potential new products and acquisitions if and when appropriate.

These developments, together with the current strategy of continuous improvement and an adherence to quality control in existing markets, are expected to assist in the achievement of the economic entity's long-term goals and development of new business opportunities.

## ITL Limited and Controlled Entities

ABN 16 088 212 088

### Directors' Report (Cont'd)

#### Environmental Issues

The Group's Malaysian manufacturing facility is certified to the Environmental Management System ISO 14001:2004 and its Quality Management System is certified to ISO 13485:2003. The economic entity is subject to the environmental laws of the countries in which they operate. The management of environmental risks and compliance with environmental laws is regarded as a key issue. The company monitors compliance with existing and new environmental regulations as they come into force.

The directors are not aware of any significant breaches of environmental regulations during the financial year.

#### Information on Directors

<b>Julian Gosse</b>	-	Chairman (Non-executive) Age 56
Experience and Directorships held in other listed entities	-	Board member since 2003, appointed Chairman 1 January 2005. Mr Gosse has extensive experience in banking and broking both in Australia and overseas having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. He is currently the Executive Director of Advanced Management Planning Limited. Mr Gosse is currently a Director of Mariner Wealth Management Limited (since 1999), Clime Capital Limited (since 2003), Wilson Leaders Limited (since 2003), Wilson Investment Fund Limited (since 2003) and BlueChip Financial Solutions Limited (since 2006).
Interest in Shares and Options	-	Shares: 350,000 Options: Nil
Special Responsibilities	-	Member of Audit and Risk Management Committee
<b>Richard England</b>	-	Director (Non-executive) Age 56
Qualifications	-	Fellow of the Institute of Chartered Accountants in Australia, Member of Australian Institute of Company Directors
Experience and Directorships held in other listed entities	-	Board member since 2003, was Chairman until 1 January 2005. Mr England is a professional company director and Chartered Accountant. He is Chairman of Gropep Limited (since 1998) and Deputy Chairman of Ruralco Holdings Limited (Director since 2002) and is a Director of Choiseul Investments Limited (since 2004), Healthscope Limited (since 1996), St George Bank Limited (since 2004) and KH Foods Limited (since 2006). During the past three years Mr England has served as a director with ABB Grain Limited (2003-2004) and Peter Lehmann Wines Limited (1998 to 2003).
Interest in Shares and Options	-	Shares: 412,000 Options: Nil
Special Responsibilities	-	Chairman of Audit and Risk Management Committee
<b>Roy Rose</b>	-	Director (Non-executive) Age 59
Qualifications	-	Bachelor of Science (Chemistry), Member of Australian Institute of Company Directors
Experience and Directorships held in other listed entities	-	Board member since 1 September 2005. Mr Rose is a chemist and has 30 years experience specialising in general management, operations/production management, international sales and marketing, technology management and corporate governance within many roles at Orica Limited (formally ICI Australia). He is the immediate past President of the Australian Industrial Research Group and is a former member of the boards of Cooperative Research Centre for Environmental Bio-technology and Qenos Pty Ltd. Mr Rose is not a director of any other ASX listed companies.
Interest in Shares and Options	-	Shares: 350,000 Options: Nil
Special Responsibilities	-	Member of Audit and Risk Management Committee

## **ITL Limited and Controlled Entities**

**ABN 16 088 212 088**

### **Directors' Report (Cont'd)**

<b>William Mobbs</b>	-	Managing Director Age 47
Qualifications	-	Master of Business Administration, Bachelor of Science, Member of the Australian Institute of Company Directors
Experience and Directorships held in other listed entities	-	Board member since 1999, joint Managing Director to 27 October 2003 then sole Managing Director. Mr Mobbs is a co-founder of the ITL Group and brings over 12 years experience in the medical and healthcare industry. Mr Mobbs has invented new concepts for a range of innovative medical products.
Interest in Shares and Options	-	Shares: 22,335,000 Options: 250,000 EXOP Tranche 2 options

### **Company Secretary**

The Company Secretary is Ms Susan Williams – Bachelor of Arts (Accounting), Master of Business Administration (International Business), Graduate Diploma of Corporate Governance, Certified Practising Accountant, Chartered Secretary. Ms Williams has worked for ITL Limited since July 2004 as the Chief Financial Officer. She has over 20 years experience in accounting and financial management roles and has held company secretarial positions since 2001. Ms Williams was appointed Company Secretary on 30 November 2004.

### **Remuneration Report**

This report details the nature and amount of remuneration for each director of ITL Limited, and for the executives receiving the highest remuneration.

#### **Remuneration Policy**

The remuneration policy of ITL Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of ITL Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between the directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed and approved by the board after seeking professional advice from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the criteria of the economic entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the Executive Share Option Plan.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

## ITL Limited and Controlled Entities

ABN 16 088 212 088

### Directors' Report (Cont'd)

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the director's are encouraged to hold shares in the company. The Managing Director is able to participate in the Executive Share Option Plan.

### Performance Based Remuneration

As part of each executive director and executives remuneration package there is a performance based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with certain level of consultation with directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budget figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in the light of the desired and actual outcomes, and their efficiency is assured in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, ITL Limited bases the assessment on audited figures, however, where the KPI involves comparison of the group or a division within the group to the market, independent reports are obtained. In certain exceptional circumstances, the board may take account of other factors impacting on the year's results as well as the extent to which other business objectives have been achieved.

Executives were eligible to earn short term incentive bonuses of between 20% and 30% of total fixed remuneration. The Managing Director was eligible to earn a 40% short term incentive bonus. Bonuses in respect of any year are paid early in the next year following the finalisation of the audited accounts.

### Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, the second being the issue of options to executives to encourage the alignment of personal and shareholder interests. The company believes this policy to have been effective in increasing shareholder wealth over the past three years.

The following table shows the gross revenue, profits, share price and dividends for the last three years for the listed entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows an increase in revenue and profitability each year. The improvement in the company's performance over the year has been reflected in the company's share price from \$0.175 at 30 June 2005 to \$0.34 at 30 June 2006. The Directors have declared a dividend of \$0.01 per share fully franked. The board is of the opinion that the improved results can be attributed in part to the previously described remuneration policy.

	2004	2005	2006
<b>Revenue</b>	\$17.6m	\$24.2m	\$31.3m
<b>Net Profit/(loss)</b>	(\$2.0m)	(\$0.1m)	\$3.3m
<b>Share Price at year-end</b>	\$0.35	\$0.175	\$0.34
<b>Dividends Paid</b>	Nil	Nil	Nil

The directors felt the share price was not as stable as was expected during the year, reaching a low of \$0.16 and a high of \$0.39. The board has increased promotional activity amongst analysts so as to increase investor awareness of the company and to stabilise the company's share price in line with consistent and stable financial position. This increased promotional activity has resulted in a number of positive analyst reports and newspaper articles.

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Directors' Report (Cont'd)**

**Details of Remuneration for Year Ended 30 June 2006**

The remuneration for each director and each five executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	<b>Salary, Fees and Commi- ssions</b>	<b>Super- annuation Contri- bution</b>	<b>Perform- ance based Bonus</b>	<b>Non-cash Benefits</b>	<b>Options</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
<b>Julian Gosse</b>	100,000	-	-	-	-	100,000
<b>Richard England</b>	45,872	4,128	-	-	-	50,000
<b>Roy Rose</b>	30,581	2,752	-	-	-	33,333
<b>Bill Mobbs</b>	240,081	98,882	140,000	11,037	-	490,000
<b>Total</b>	<b>416,534</b>	<b>105,762</b>	<b>140,000</b>	<b>11,037</b>	<b>-</b>	<b>673,334</b>

	<b>Salary, Fees and Commi- ssions</b>	<b>Super- annuation Contri- bution</b>	<b>Perform- ance based Bonus</b>	<b>Non-cash Benefits</b>	<b>Options</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
<b>Specified Executives</b>						
<b>Susan Williams</b>	111,571	40,560	45,000	30,569	-	227,700
<b>Stephanie Norrell (USA)</b>	239,577	-	53,541	4,819	-	297,936
<b>David Laffar (UK)</b>	190,404	-	57,121	21,776	-	269,301
<b>Frank Kubik (Malaysia)</b>	159,256	-	28,157	-	-	187,414
<b>Avtar Kashmirian</b>	109,598	19,620	29,000	16,952	-	175,170
<b>Total</b>	<b>810,405</b>	<b>60,180</b>	<b>212,820</b>	<b>74,117</b>	<b>-</b>	<b>1,157,521</b>

**Performance Income as a Proportion of Total Remuneration**

Executive directors and executives are paid performance based bonuses on proportions of their salary. The board has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity.

The board will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

**Options Issued as Part of Remuneration for the Year Ended 30 June 2006**

There were no options issued to executives as part of their remuneration during the year. When issued, options are not issued based on performance criteria, but are issued to all of executives of ITL Limited to increase goal congruence between executives and shareholders.

**Employment Contracts of Directors and Senior Executives**

The employment conditions of the Managing Director Mr Mobbs and senior executives are formalised in contracts of employment. Mr Mobbs is employed under a fixed two-year contract, which commenced on 1 July 2005 and expires on 1 July 2007, with a provision for renewal for a further two years. All other executives are permanent employees of ITL Limited.

The employment contracts of the senior executives stipulate a three-month resignation period. The company may terminate an employee contract without cause by providing three months written notice or making payment in lieu of notice, based on the individual's annual fixed salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

**ITL Limited and Controlled Entities**  
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**Directors' Report (Cont'd)**

**Directors' Meetings**

During the financial year 17 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	<b>Directors' Meetings</b>		<b>Audit &amp; Risk Committee</b>	
	<b>Number eligible to attend</b>	<b>Number attended</b>	<b>Number eligible to attend</b>	<b>Number attended</b>
Julian Gosse	12	12	5	5
Richard England	12	12	5	5
Roy Rose	10	10	3	2
William Mobbs	12	12	-	-

**Indemnifying Officers or Auditor**

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

All directors have executed with the company a Deed of Access and Indemnity. This requires that the company indemnify each Director, maintain an insurance policy in favour of each Director and grant access to the records of the company. The company has entered into Deeds of Access and Indemnity with Mr William Mobbs, Mr Julian Gosse, Mr Richard England, Mr Roy Rose, Ms Susan Williams, Ms Stephanie Norrell, Mr David Laffar and Mr Frank Kubik.

The company has paid premiums to insure all of the Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officer of the company or its subsidiaries, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$63,324 for all Directors and Officers.

**Options**

At the date of this report, the unissued ordinary shares of ITL Limited under option are as follows:

<b>Grant Date</b>	<b>Share Price at Date of Issue</b>	<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number Under Option</b>
23 October 2003	\$0.50 (IPO)	42 days after release of 30 June 2006 Appendix 4E	\$0.70	250,000
28 February 2005	\$0.14	1 March 2006 to 31 August 2006	\$0.20	3,050,000
20 January 2006	\$0.23*	1 March 2006 to 31 August 2006	\$0.20	500,000

\*500,000 options were issued on 20 January 2006 as part purchase price of Heal Marketing in accordance with negotiations prior to completion of purchase.

During the year ended 30 June 2006, the following ordinary shares of ITL Limited were issued on the exercise of options granted under the ITL Limited Executive Share Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

<b>Grant Date</b>	<b>Exercise Price</b>	<b>Number of Share Issued</b>
28 February 2005	\$0.20	500,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

**Proceedings on Behalf of Company**

No person has applied for leave to Court, 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 any part of those proceedings.

The company was not a party to any such proceedings during the year other than as disclosed in Note 29.

## **ITL Limited and Controlled Entities**

**ABN 16 088 212 088**

### **Directors' Report (Cont'd)**

#### **Non-audit Services**

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2006:

	\$
Taxation services	110,213
Other	-
Total non-audit services	<u>110,213</u>

#### **Auditor's Independence Declaration**

The lead auditor's independence declaration by the auditor under section 307C of the Corporations Act 2001 has been received and is reproduced immediately following the Directors' Report.

#### **Rounding of Amounts**

The company is an entity to which ASIC Class Order 98/100 applies. The company has not chosen to round to the nearest thousand dollars at this time.

Signed in accordance with a resolution of the Board of Directors.



Julian Gosse  
Director

Dated this 10<sup>th</sup> day of August 2006



**WALTERTURNBULL**  
*your extra asset*

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION  
307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF  
ITL LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended  
30 June 2006 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.

A B Papps  
Registered Company Auditor  
Walter Turnbull

Canberra, ACT  
10 August, 2006

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CANBERRA SYDNEY MELBOURNE



**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Income Statement**

for the year ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	3	31,274,257	24,215,161	2,293,434	479,433
Cost of Sales	4	(18,155,293)	(13,627,450)	(9,957)	-
Employee benefits expense		(6,776,532)	(6,710,938)	(1,817,781)	(1,266,045)
Depreciation and amortisation expense	4	(722,336)	(754,416)	(132,368)	(96,146)
Finance costs	4	(181,823)	(107,341)	-	(1,114)
Consultants		(177,421)	(215,964)	(66,706)	(53,759)
Legal expenses – US		(153,822)	(324,085)	-	-
Office expenses		(831,292)	(562,749)	(121,032)	(88,420)
Travel and accommodation		(724,508)	(487,172)	(221,379)	(103,010)
Communication and marketing		(660,595)	(526,172)	(140,317)	(85,516)
Accounting and audit		(203,711)	(393,416)	(187,363)	(344,823)
Business insurances expense		(146,555)	(224,428)	(77,327)	(86,431)
Regulatory and QA expense		(111,168)	(41,400)	-	-
Impairment of capitalised research and development and tools		(485,769)	(964,036)	-	(126,632)
Work performed by the entity and capitalised		1,175,929	888,264	-	-
Currency gains/(losses)	4	298,692	(207,548)	79,606	(23,401)
Reversals and refunds of ATO penalties and interest		494,949	-	10,655	-
Other expenses		(217,696)	(333,282)	(27,356)	(96,652)
Profit/(loss) before income tax expense		3,695,306	(376,972)	(417,891)	(1,892,516)
Income tax benefit/(expense)	6	(437,921)	344,470	160,732	(105,873)
<b>Net Profit/(Loss) attributable to ITL Limited's Shareholders</b>		<b>3,257,385</b>	<b>(32,502)</b>	<b>(257,159)</b>	<b>(1,998,389)</b>
Basic earnings per share (cents per share)	9	0.032	-	-	-
Diluted earnings per share (cents per share)	9	0.031	-	-	-

The accompanying notes form part of these financial statements.

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Balance Sheet**

as at year ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	10	5,377,370	4,379,322	1,788,195	2,050,088
Trade and other receivables	11	7,329,607	4,080,930	(48,445)	79,408
Inventories	12	7,701,468	5,163,387	-	-
Financial assets	13	105,000	175,000	105,000	175,000
Other assets	14	527,008	853,436	161,833	226,670
<b>TOTAL CURRENT ASSETS</b>		<b>21,040,453</b>	<b>14,652,075</b>	<b>2,006,583</b>	<b>2,531,166</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	15	3,845,242	2,598,077	1,001,044	936,775
Product development, tools	16	6,400,276	4,459,091	-	-
Intangible assets	17	10,259,779	8,580,490	-	-
Investments accounted for using the consolidation method	18	-	-	11,651,386	9,770,154
Intercompany loans	19	-	-	10,674,429	10,826,958
<b>TOTAL NON-CURRENT ASSETS</b>		<b>20,505,297</b>	<b>15,637,658</b>	<b>23,326,859</b>	<b>21,533,887</b>
<b>TOTAL ASSETS</b>		<b>41,545,750</b>	<b>30,289,733</b>	<b>25,333,442</b>	<b>24,065,053</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	20	6,743,319	4,594,378	696,693	684,879
Interest-bearing liabilities	21	2,232,467	484,521	-	-
Current tax liabilities	22	74,020	(969,758)	-	(978,172)
Provisions	23	540,557	365,587	185,292	66,663
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,590,363</b>	<b>4,474,728</b>	<b>881,985</b>	<b>(226,630)</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	21	860,549	431,184	-	-
Deferred tax liabilities	22	43,494	342,282	365,863	342,000
Provisions	23	33,256	-	33,256	-
Other liabilities	24	2,011,384	-	-	79,160
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,948,683</b>	<b>773,466</b>	<b>399,119</b>	<b>421,160</b>
<b>TOTAL LIABILITIES</b>		<b>12,539,046</b>	<b>5,248,194</b>	<b>1,281,104</b>	<b>194,530</b>
<b>TOTAL NET ASSETS</b>		<b>29,006,704</b>	<b>25,041,539</b>	<b>24,052,338</b>	<b>23,870,523</b>
<b>EQUITY</b>					
Contributed equity	25	28,103,050	27,700,200	28,103,050	27,700,200
Reserves		7,041	(297,889)	416,277	380,153
Retained profits		896,613	(2,360,772)	(4,466,989)	(4,209,830)
<b>TOTAL EQUITY</b>		<b>29,006,704</b>	<b>25,041,539</b>	<b>24,052,338</b>	<b>23,870,523</b>

The accompanying notes form part of these financial statements.

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Statement of Changes in Equity**  
for the year ended 30 June 2006

<b>Economic Entity</b>	<b>Contributed Equity</b>	<b>Foreign Currency Translation Reserve</b>	<b>Asset Revaluation Reserve</b>	<b>Retained Profits</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2004</b>	27,700,200	(410,376)	-	(2,627,463)	24,662,361
AIFRS adjustment to 1 July 2004 balance	-	-	-	299,193	299,193
Profit attributable to ITL Limited's Shareholders	-	-	-	(32,502)	(32,502)
Revaluation increment	-	-	380,153	-	380,153
Adjustments from translation of foreign controlled entities	-	(267,666)	-	-	(267,666)
<b>Balance at 30 June 2005</b>	<b>27,700,200</b>	<b>(678,042)</b>	<b>380,153</b>	<b>(2,360,772)</b>	<b>25,041,539</b>
Shares issued during the year	370,000	-	-	-	370,000
Value of options issued during the year not exercised	32,850	-	-	-	32,850
Profit attributable to ITL Limited's Shareholders	-	-	-	3,257,385	3,257,385
Revaluation increment	-	-	36,124	-	36,124
Adjustments from translation of foreign controlled entities	-	268,806	-	-	268,806
<b>Balance at 30 June 2006</b>	<b>28,103,050</b>	<b>(409,236)</b>	<b>416,277</b>	<b>896,613</b>	<b>29,006,704</b>
<b>Parent Entity</b>	<b>Contributed Equity</b>	<b>Asset Revaluation Reserve</b>	<b>Retained Profits</b>	<b>Total</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
<b>Balance at 1 July 2004</b>	27,700,200	-	(2,510,634)	25,189,566	
AIFRS adjustment to 1 July 2004 balance	-	-	299,193	299,193	
Loss attributable to ITL Limited's Shareholders	-	-	(1,998,389)	(1,998,389)	
Revaluation increment	-	380,153	-	380,153	
<b>Balance at 30 June 2005</b>	<b>27,700,200</b>	<b>380,153</b>	<b>(4,209,830)</b>	<b>23,870,523</b>	
Shares issued during the year	370,000	-	-	370,000	
Value of options issued during the year not exercised	32,850	-	-	32,850	
Loss attributable to ITL Limited's Shareholders	-	-	(257,159)	(257,159)	
Revaluation increment	-	36,124	-	36,124	
<b>Balance at 30 June 2006</b>	<b>28,103,050</b>	<b>416,277</b>	<b>(4,466,989)</b>	<b>24,052,338</b>	

The accompanying notes form part of these financial statements.

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Statement of Cash Flows**  
for the year ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from grants and customers		32,871,365	25,228,687	18,362	10,174
Payments to suppliers		(19,751,478)	(15,671,945)	(10,953)	-
Payment of expenses and wages		(8,340,274)	(8,940,855)	(2,236,622)	(1,795,798)
Interest received		147,920	220,588	93,457	205,754
Borrowing costs		(181,823)	(107,341)	-	(1,114)
Income tax (paid)/refunded		308,093	(223,054)	369,686	(145,627)
Net cash provided by/(used in) operating activities	<b>28(a)</b>	<u>5,053,803</u>	<u>506,080</u>	<u>(1,766,070)</u>	<u>(1,726,611)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds on sale of assets		-	35,648	-	-
Payment for product development and tools		(1,611,995)	(1,516,456)	-	(73,578)
Payment for property, plant and equipment		(1,397,573)	(434,129)	(153,013)	(210,658)
Payment for Patent and IP		(52,037)	(74,820)	-	-
Payment for investments in unrelated entities		-	(175,000)	-	(175,000)
Deposit on purchase of assets		(86,403)	(92,527)	(68,897)	(92,527)
Payment for subsidiary, net of cash acquired	<b>28(b)</b>	<u>(2,659,185)</u>	<u>(112,049)</u>	<u>-</u>	<u>-</u>
Net cash used in investing activities		<u>(5,807,193)</u>	<u>(2,369,333)</u>	<u>(221,910)</u>	<u>(551,763)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		100,000	-	100,000	-
Proceeds from borrowings		833,482	-	-	-
Repayments of borrowings		(960,405)	(478,298)	-	-
Loan to group/(loans repaid)		-	-	1,626,087	(2,073,962)
Net cash provided by/(used in) financing activities		<u>(6,832)</u>	<u>(478,298)</u>	<u>1,726,087</u>	<u>(2,073,962)</u>
Net decrease in cash held		(780,283)	(2,341,551)	(261,893)	(4,352,336)
Cash at beginning of year		4,216,616	6,558,167	2,050,088	6,402,424
<b>Cash at end of year</b>	<b>10</b>	<u><b>3,436,333</b></u>	<u><b>4,216,616</b></u>	<u><b>1,788,195</b></u>	<u><b>2,050,088</b></u>

The accompanying notes form part of these financial statements

## **Notes to the financial statements**

### **Note 1: Statement of Significant Accounting Policies**

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

The financial report covers the economic entity of ITL Limited and controlled entities, and ITL Limited as an individual parent entity. ITL Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of ITL Limited and controlled entities, and ITL Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

#### **Basis of Preparation**

##### *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

ITL Limited and controlled entities, and ITL Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of ITL Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

##### *Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### **Accounting Policies**

##### **(a) Principles of Consolidation**

A controlled entity is any entity ITL Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 30 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

**Notes to the financial statements**

**Note 1: Basis of preparation (cont'd)**

**(a) Principles of Consolidation (cont'd)**

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

**(b) Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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 assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ITL Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. ITL Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(c) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of actual cost, or where possible, costs are updated to most recent purchase price.

**(d) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

**Notes to the financial statements**

**Note 1: Basis of preparation (cont'd)**

**(d) Property, Plant and Equipment (cont'd)**

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with that item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets original cost is transferred from the revaluation reserve to retained earnings.

**Depreciation**

The depreciable amount of all fixed assets including building and capitalised lease assets, is depreciated on a straight line basis over their useful lives to the Economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Leasehold land (Malaysia only)	1%
Land & buildings	2 - 2.5%
Furniture & fittings	10 - 20%
Leasehold improvements	20%
Computer & office equipment	10 - 33.33%
Computer software	33.33%
Motor vehicles	15%
Product development	5 - 33.33%
Product tools, production, QA and Lab equipment	10 - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**Notes to the financial statements**

**Note 1: Basis of preparation (cont'd)**

**(e) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(f) Financial Instruments**

**Recognition**

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

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**Loans and receivables**

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

**Held-to-maturity investments**

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest method.

**Available-for-sale financial assets**

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Notes to the financial statements**

**Note 1: Basis of preparation (cont'd)**

**(f) Financial Instruments (cont'd)**

**Derivative instruments**

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

ITL Limited and Controlled Entities designates certain derivatives as either:

- i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. hedges of highly probably forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented. Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items are also documented.

*i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedge asset or liability that are attributable to the hedged risk.

*ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

**Fair Value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

**(g) Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(h) Investments in Associates**

The Economic entity has no associates, all entities are 100% owned.

## **Notes to the financial statements**

### **Note 1: Basis of preparation (cont'd)**

(i) **Intangibles**

**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**Patents and Trademarks**

Patents and Trademarks are recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. They are amortised over the lesser of the period in which their benefits are expected to be realised or the residual life of the patent or trademark usually 20 years.

**Research and Development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Product development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Product development has a finite life and is amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(j) **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when the values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**Group Companies**

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

**Notes to the financial statements**

**Note 1: Basis of preparation (cont'd)**

**(k) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. 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 benefits.

**Equity-settled compensation**

The group operates a share option arrangement with senior executives as a share-based compensation plan. The bonus element over the exercise price of the employee services rendered in exchange for the grant of options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

**(l) Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(m) Debt Defeasance**

Where assets are given up to extinguish the principal repayments and all future interest payments of a debt any differences in the carrying values of assets foregone and the liability extinguished are brought to account in the profit from ordinary activities. Costs incurred in establishing the defeasance are expensed in the period that the defeasance occurs.

Where only part of a debt is extinguished the interest payments and principal repayments are defeased proportionately and a liability recognised for the net present value of the remaining future interest and principal repayments. The discount factor applied is the implicit rate in the original debt.

In all cases where defeasance occurs, it is highly unlikely that the company will again be required to pay any part of the debt or meet any guarantees or indemnities associated with the debt.

**(n) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within interest-bearing liabilities in current liabilities on the balance sheet. Bank overdrafts are included in cash for the purposes of the statement of cash flows.

**(o) Revenue**

Revenue from the sale of goods is recognised upon the dispatch of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

**Notes to the financial statements**

**Note 1: Basis of preparation (cont'd)**

**(p) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(q) Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis

**(r) Comparative figures**

When required by Accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

**Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key estimates — Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2006. Should the projected turnover figures be outside 90% of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2006 amounting to \$9,448,001.

**Notes to the financial statements**

	Note	Previous GAAP at 1 July 2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 1 July 2004
		\$	\$	\$
<b>Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards</b>				
<b>Economic Entity</b>				
<b>Reconciliation of Equity at 1 July 2004</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		7,365,499	-	7,365,499
Trade and other receivables		3,455,956	-	3,455,956
Inventories		4,810,534	-	4,810,534
Prepayments		371,067	-	371,067
Other current assets		294,484	-	294,484
<b>TOTAL CURRENT ASSETS</b>		<b>16,297,540</b>	<b>-</b>	<b>16,297,540</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		2,217,346	-	2,217,346
Product development, tools		4,521,167	-	4,521,167
Intangible assets		8,614,714	-	8,614,714
Deferred tax assets	2(a)	431,312	(431,312)	-
Investments		-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15,784,539</b>	<b>(431,312)</b>	<b>15,353,227</b>
<b>TOTAL ASSETS</b>		<b>32,082,079</b>	<b>(431,312)</b>	<b>31,650,767</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		4,546,189	-	4,546,189
Interest-bearing liabilities		1,321,026	-	1,321,026
Current tax liabilities (asset)		(313,672)	-	(313,672)
Short term provisions		341,265	-	341,265
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,894,808</b>	<b>-</b>	<b>5,894,808</b>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing liabilities		717,603	-	717,603
Deferred tax liabilities	2(a)	508,114	(132,119)	375,995
Long term provisions		-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,225,717</b>	<b>(132,119)</b>	<b>1,093,598</b>
<b>TOTAL LIABILITIES</b>		<b>7,120,525</b>	<b>(132,119)</b>	<b>6,988,406</b>
<b>TOTAL NET ASSETS</b>		<b>24,961,554</b>	<b>(299,193)</b>	<b>24,662,361</b>
<b>EQUITY</b>				
Contributed Equity		27,700,200	-	27,700,200
Reserves		(410,376)	-	(410,376)
Retained Profits	2(c)	(2,328,270)	(299,193)	(2,627,463)
<b>TOTAL EQUITY</b>		<b>24,961,554</b>	<b>(299,193)</b>	<b>24,662,361</b>

**Notes to the financial statements**

	Note	Previous GAAP at 30 June 2005	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 30 June 2005
		\$	\$	\$
<b>Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)</b>				
<b>Reconciliation of Equity at 30 June 2005</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		4,379,322	-	4,379,322
Trade and other receivables		4,237,887	-	4,237,887
Inventories		5,163,387	-	5,163,387
Prepayments		261,100	-	261,100
Other current assets		610,379	-	610,379
<b>TOTAL CURRENT ASSETS</b>		<b>14,652,075</b>	<b>-</b>	<b>14,652,075</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		2,598,077	-	2,598,077
Product development, tools		4,459,091	-	4,459,091
Intangible assets	2(b)	8,164,348	416,142	8,580,490
Deferred tax assets	2(a)	392,428	(392,428)	-
Investments		-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15,613,944</b>	<b>23,714</b>	<b>15,637,658</b>
<b>TOTAL ASSETS</b>		<b>30,266,019</b>	<b>23,714</b>	<b>30,289,733</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		4,594,378	-	4,594,378
Interest-bearing liabilities		484,521	-	484,521
Current tax liabilities (asset)		(969,758)	-	(969,758)
Short term provisions		365,587	-	365,587
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,474,728</b>	<b>-</b>	<b>4,474,728</b>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing liabilities		431,184	-	431,184
Deferred tax liabilities	2(a)	248,191	94,091	342,282
Long term provisions		-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>679,375</b>	<b>94,091</b>	<b>773,466</b>
<b>TOTAL LIABILITIES</b>		<b>5,154,103</b>	<b>94,091</b>	<b>5,248,194</b>
<b>TOTAL NET ASSETS</b>		<b>25,111,916</b>	<b>(70,377)</b>	<b>25,041,539</b>
<b>EQUITY</b>				
Contributed Equity		27,700,200	-	27,700,200
Reserves	2(a)	(120,971)	(176,918)	(297,889)
Retained Profits	2(c)	(2,467,313)	106,541	(2,360,772)
<b>TOTAL EQUITY</b>		<b>25,111,916</b>	<b>(70,377)</b>	<b>25,041,539</b>

**Notes to the financial statements**

	Note	Previous GAAP at 1 July 2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 1 July 2004
		\$	\$	\$
<b>Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)</b>				
<b>Parent Entity</b>				
<b>Reconciliation of Equity at 1 July 2004</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		6,402,424	-	6,402,424
Trade and other receivables		29,569	-	29,569
Prepayments		46,652	-	46,652
<b>TOTAL CURRENT ASSETS</b>		<b>6,478,645</b>	<b>-</b>	<b>6,478,645</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		262,880	-	262,880
Product development, tools		55,366	-	55,366
Deferred tax assets	2(a)	431,312	(431,312)	-
Investments		5,000,412	-	5,000,412
Intercompany Loans		13,618,025	-	13,618,025
<b>TOTAL NON-CURRENT ASSETS</b>		<b>19,367,995</b>	<b>(431,312)</b>	<b>18,936,683</b>
<b>TOTAL ASSETS</b>		<b>25,846,640</b>	<b>(431,312)</b>	<b>25,415,328</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		218,300	-	218,300
Current tax liabilities (asset)		107,031	-	107,031
Short term provisions		32,550	-	32,550
<b>TOTAL CURRENT LIABILITIES</b>		<b>357,881</b>	<b>-</b>	<b>357,881</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	2(a)	-	(132,119)	(132,119)
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>(132,119)</b>	<b>(132,119)</b>
<b>TOTAL LIABILITIES</b>		<b>357,881</b>	<b>(132,119)</b>	<b>225,762</b>
<b>TOTAL NET ASSETS</b>		<b>25,488,759</b>	<b>(299,193)</b>	<b>25,189,566</b>
<b>EQUITY</b>				
Contributed Equity		27,700,200	-	27,700,200
Retained Profits	2(c)	(2,211,441)	(299,193)	(2,510,634)
<b>TOTAL EQUITY</b>		<b>25,488,759</b>	<b>(299,193)</b>	<b>25,189,566</b>

**Notes to the financial statements**

	Note	Previous GAAP at 30 June 2005	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 30 June 2005
		\$	\$	\$
<b>Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)</b>				
<b>Reconciliation of Equity at 30 June 2005</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		2,050,088	-	2,050,088
Trade and other receivables		79,408	-	79,408
Prepayments		134,143	-	134,143
Other current assets		267,527	-	267,527
<b>TOTAL CURRENT ASSETS</b>		<b>2,531,166</b>	<b>-</b>	<b>2,531,166</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		936,775	-	936,775
Deferred tax assets	2(a)	392,428	(392,428)	-
Investments		9,770,154	-	9,770,154
Intercompany Loans		10,826,958	-	10,826,958
<b>TOTAL NON-CURRENT ASSETS</b>		<b>21,926,315</b>	<b>(392,428)</b>	<b>21,533,887</b>
<b>TOTAL ASSETS</b>		<b>24,457,481</b>	<b>(392,428)</b>	<b>24,065,053</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		684,879	-	684,879
Current tax liabilities (asset)		(978,172)	-	(978,172)
Short term provisions		66,663	-	66,663
<b>TOTAL CURRENT LIABILITIES</b>		<b>(226,630)</b>	<b>-</b>	<b>(226,630)</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	2(a)	247,909	94,091	342,000
Long term provisions		79,160	-	79,160
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>327,069</b>	<b>94,091</b>	<b>421,160</b>
<b>TOTAL LIABILITIES</b>		<b>100,439</b>	<b>94,091</b>	<b>194,530</b>
<b>TOTAL NET ASSETS</b>		<b>24,357,042</b>	<b>(486,519)</b>	<b>23,870,523</b>
<b>EQUITY</b>				
Contributed Equity		27,700,200	-	27,700,200
Reserves	2(a)	557,071	(176,918)	380,153
Retained Profits	2(c)	(3,900,229)	(309,601)	(4,209,830)
<b>TOTAL EQUITY</b>		<b>24,357,042</b>	<b>(486,519)</b>	<b>23,870,523</b>

**Notes to the financial statements**

	Note	Previous GAAP	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS
		\$	\$	\$
<b>Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)</b>				
<b>Economic Entity</b>				
<b>Reconciliation of Profit or Loss for the full year to 30 June 2005</b>				
Revenues		24,215,161	-	24,215,161
Cost of Sales		(13,627,450)	-	(13,627,450)
Employee benefits expense		(6,710,938)	-	(6,710,938)
Depreciation and amortisation expense	2(b)	(1,170,558)	416,142	(754,416)
Borrowing costs expense		(107,341)	-	(107,341)
Consultants		(215,964)	-	(215,964)
Legal expenses – US		(324,085)	-	(324,085)
Office expenses		(562,749)	-	(562,749)
Travel and accommodation		(487,172)	-	(487,172)
Communication and marketing		(526,172)	-	(526,172)
Accounting and audit		(393,416)	-	(393,416)
Impairment of capitalised research and development		(964,036)	-	(964,036)
Work performed by the entity and capitalised		888,264	-	888,264
Currency gains and losses		(207,548)	-	(207,548)
Other expenses		(599,110)	-	(599,110)
Profit/(Loss) before income tax expense		(793,114)	416,142	(376,972)
Income tax benefit/(expense)	2(a)	654,071	(309,601)	344,470
<b>Profit/(loss) attributable to ITL Limited's Shareholders</b>		<b>(139,043)</b>	<b>106,541</b>	<b>(32,502)</b>
<b>Parent Entity</b>				
<b>Reconciliation of Profit or Loss for the full year to 30 June 2005</b>				
Revenues		479,433	-	479,433
Employee benefits expense		(1,266,045)	-	(1,266,045)
Depreciation and amortisation expense	2(b)	(96,146)	-	(96,146)
Borrowing costs expense		(1,114)	-	(1,114)
Consultants		(53,759)	-	(53,759)
Office expenses		(88,420)	-	(88,420)
Travel and accommodation		(103,010)	-	(103,010)
Communication and marketing		(85,516)	-	(85,516)
Accounting and audit		(344,823)	-	(344,823)
Impairment of capitalised research and development		(126,632)	-	(126,632)
Other expenses		(206,484)	-	(206,484)
Profit/(Loss) before income tax expense		(1,892,516)	-	(1,892,516)
Income tax benefit/(expense)	2(a)	203,728	(309,601)	(105,873)
<b>Profit/(loss) attributable to ITL Limited's Shareholders</b>		<b>(1,688,788)</b>	<b>(309,601)</b>	<b>(1,998,389)</b>

**Notes to the financial statements**

	<b>Economic Entity 30 June 2005</b>	<b>Economic Entity 1 July 2004</b>	<b>Parent Entity 30 June 2005</b>	<b>Parent Entity 1 July 2004</b>
	\$	\$	\$	\$
<b>Notes to the reconciliations of equity and profit or loss at 1 July 2004 and 30 June 2005</b>				
<b>Economic Entity</b>				
(a) Change in tax treatment under AIFRS: of assets and liabilities of tax applied to revaluation of land and buildings	(486,519)	(299,193)	(486,519)	(299,193)
	176,918	-	176,918	-
	(309,601)	(299,193)	(309,601)	(299,193)
(b) Under AASB 3, goodwill is no longer amortised but subject to annual impairment testing. All goodwill amortised under previous GAAP has been reversed. Goodwill amounting to \$416,142 previously amortised in the 2005 full financial year has been reversed in the income statement for the year ended 30 June 2005	416,142	-	-	-
(c) Retained earnings comprise: Reversal of goodwill previously amortised	416,142	-	-	-
Change in tax treatment under AIFRS	(309,601)	(299,193)	(309,601)	(299,193)
	106,541	(299,193)	(309,601)	(299,193)

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 3: Revenue</b>				
Operating activities:				
Sale of goods	30,973,838	23,812,772	-	-
Interest received	159,110	231,159	104,647	192,838
Revenue from grants	36,936	-	-	-
Rental revenue	10,000	10,000	10,000	10,000
Corporate office recharge	-	-	2,174,832	-
Other	94,373	161,230	3,955	276,595
<b>Total revenue</b>	<b>31,274,257</b>	<b>24,215,161</b>	<b>2,293,434</b>	<b>479,433</b>
<b>Note 4: Profit for the Year</b>				
Profit from ordinary activities before income tax has been determined after:				
<b>Expenses</b>				
Cost of sales	17,703,315	13,433,488	9,957	-
Write down of inventories	451,978	193,962	-	-
	<b>18,155,293</b>	<b>13,627,450</b>	<b>9,957</b>	<b>-</b>
Depreciation of non-current assets:				
Land	3,449	2,511	-	-
Buildings	21,903	25,340	-	5,460
Land & buildings	18,624	-	18,624	-
Furniture & fittings	38,313	51,545	1,432	14,127
Computer & office equipment	154,518	210,383	24,415	18,246
Leasehold improvements	24,524	17,109	288	-
Computer software	141,749	118,018	87,609	56,001
Motor vehicle	5,131	6,736	-	-
Product tools	328,460	303,288	-	-
Production, QA and lab equipment	12,988	23,484	-	-
Total depreciation	749,659	758,414	132,368	93,834
Amortisation of non-current assets:				
- Product design	151,771	68,093	-	2,312
- Procedure packs	-	21,959	-	-
- Patents and trademarks	151,097	146,990	-	-
Total amortisation	302,868	237,042	-	2,312
Total Depreciation and Amortisation	1,052,527	995,456	132,368	96,146
Less: Depreciation included in cost of sales	(330,191)	(241,040)	-	-
Depreciation and amortisation expense	<b>722,336</b>	<b>754,416</b>	<b>132,368</b>	<b>96,146</b>
Borrowing costs - external	<b>181,823</b>	<b>107,341</b>	<b>-</b>	<b>1,114</b>
Foreign currency translation (gains)/losses	<b>(298,692)</b>	<b>207,548</b>	<b>(79,606)</b>	<b>23,401</b>

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Notes to the financial statements**

**Note 5: Key Management Personnel Compensation**

- (a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

<b>Key Management Person</b>	<b>Position</b>
Julian Gosse	Chairman – Non-Executive
Richard England	Director – Non-Executive
Roy Rose	Director – Non-Executive (from 1 September 2005)
Bill Mobbs	Director – Executive
	Chief Executive Officer
Susan Williams	Company Secretary
	Chief Financial Officer
Stephanie Norrell (USA)	Managing Director – ITL North America Inc.
	Vice President Sales Area 3
Davaid Laffar (UK)	Managing Director – ITL Europe Limited
	Vice President Acquisitions & Strategic Projects
Frank Kubik (Malaysia)	Managing Director – ITL Asia Pacific Sdn Bhd
	Vice President Quality Assurance & Regulatory Affairs
Avtar Kashmirian	Vice President Research & Development

(b) **Compensation Practices**

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Key management personnel are paid a percentage of 25% of their salary in the event of redundancy. Any options not exercised before or on the date of termination lapse.

The group seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically, the incorporation of incentive payments based on the achievement of revenue targets and profitability goals set for the individuals, divisions and the group. This condition provides management with a performance target focused upon organic growth and growth through acquisitions.

Bonuses included per Note 5(c) are based on these targets. The objective of the reward scheme is to both reinforce the short and long-term goals of the group and to provide a common interest between management and shareholders. The bonuses were granted to key management personnel on 21 June 2006. There has been no alteration to the terms of the bonuses paid since grant date.

The Board determines the proportion of fixed and variable compensation for each key management personnel. Refer Note 5(c).

**ITL Limited and Controlled Entities**  
**ABN 16 088 212 088**

**Notes to the financial statements**

**Note 5: Directors and Officers Remuneration (cont'd)**

**(c) Key Management Personnel Compensation**

2006 Key Management Person	Short-term benefits				Post employment Benefits Super- annuation	Share based payment Options	Total
	Cash, salary and commissions	Bonus	Non-cash benefit	Other			
	\$	\$	\$	\$			
Julian Gosse	100,000	-	-	-	-	-	100,000
Richard England	45,872	-	-	-	4,128	-	50,000
Roy Rose	30,581	-	-	-	2,752	-	33,333
Bill Mobbs	240,081	140,000	11,037	-	98,882	-	490,000
Susan Williams	111,571	45,000	30,569	-	40,560	-	227,700
Stephanie Norrell (USA)	239,577	53,541	4,819	-	-	-	297,937
David Laffar (UK)	190,404	57,121	21,776	-	-	-	269,301
Frank Kubik (Malaysia)	159,256	28,157	-	-	-	-	187,413
Avtar Kashmirian	109,598	29,000	16,952	-	19,620	-	175,170
	<b>1,226,940</b>	<b>352,819</b>	<b>85,153</b>	<b>-</b>	<b>165,942</b>	<b>-</b>	<b>1,830,854</b>

2005 Key Management Person	Short-term benefits				Post employment Benefits Super- annuation	Share based payment Options	Total
	Cash, salary and commissions	Bonus	Non-cash benefit	Other			
	\$	\$	\$	\$			
Julian Gosse	72,220	-	-	-	6,500	-	78,720
Richard England	68,436	-	-	-	6,159	-	74,595
Bill Mobbs	280,000	65,000	-	-	22,500	-	367,500
Jag Dillon *	195,556	-	13,100	-	747,777	-	956,433
Susan Williams	139,162	30,000	-	-	11,558	4,335	185,055
Stephanie Norrell (USA)	196,873	59,852	5,464	-	-	4,335	266,524
David Laffar (UK)	207,510	-	3,357	-	-	4,335	215,202
Frank Kubik (Malaysia)	134,701	10,000	-	-	-	4,335	149,036
Avtar Kashmirian	119,266	13,000	-	-	10,734	4,335	147,335
	<b>1,413,724</b>	<b>177,852</b>	<b>21,921</b>	<b>-</b>	<b>805,228</b>	<b>21,675</b>	<b>2,440,402</b>

\* This compensation includes termination payments made to Dr Jag Dillon received as cash of \$138,740 and superannuation of \$711,260

The service and performance criteria set to determine remuneration are included per Note (b).

**Notes to the financial statements**

**Note 5: Directors and Officers Remuneration (cont'd)**

**(d) Compensation Options**

**Options Granted as Compensation**

Key Management Personnel	Vested Number	Number of Options Granted	Grant Date	Value per Option at Grant Date	Terms & Conditions for Each Grant		
					Exercise Price	First Exercise Date	Last Exercise Date
Julian Gosse	-	-	-	-	-	-	-
Richard England	-	-	-	-	-	-	-
Roy Rose	-	-	-	-	-	-	-
Bill Mobbs	-	-	-	-	-	-	-
Susan Williams	500,000	-	28/2/05	\$0.009	\$0.20	1/3/06	31/8/06
Stephanie Norrell	500,000	-	28/2/05	\$0.009	\$0.20	1/3/06	31/8/06
David Laffar	500,000	-	28/2/05	\$0.009	\$0.20	1/3/06	31/8/06
Frank Kubik	500,000	-	28/2/05	\$0.009	\$0.20	1/3/06	31/8/06
Avtar Kashmirian	500,000	-	28/2/05	\$0.009	\$0.20	1/3/06	31/8/06
	<u>2,500,000</u>	<u>-</u>					

The service and performance criteria set to determine compensation are included per Note 5(b) and Note 36.

All options granted as part of remuneration during the prior period vested on 1 March 2006, with the exercise period being 1 March 2006 to 31 August 2006, after which the options will expire. Under the company's share trading policy employees are not permitted to trade in ITL shares between 30 June and 24 hours after the lodgement with the Australian Stock Exchange of the Appendix 4E. However, the Directors have given varied this policy to allow executives to exercise their options that expire on 31 August 2006 during that period provided they have notified the company in writing stating their intention to do so. All executives have notified the company of their intention to exercise their options. Options were valued using the Black-Scholes method.

**(e) Shares Issued on Exercise of Compensation Options**

Options exercised during the year that were granted as compensation in prior periods

Key Management Personnel	No. of Ordinary Shares Issued	Amount paid per share	Amount unpaid per share
		\$	\$
Susan Williams	<u>500,000</u>	0.20	0.00
	<u>500,000</u>		

**Notes to the financial statements**

**Note 5: Directors and Officers Remuneration (cont'd)**

**(f) Options and Rights Holdings**

**Number of Options Held by Key Management Personnel**

<b>2006</b>									
<b>Key Management Person</b>	<b>Balance 1/7/2005</b>	<b>Granted as Compensation</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Balance 30/6/06</b>	<b>Total Vested</b>	<b>Total Exercisable 30/6/06</b>	<b>Total Un-exercisable 30/6/06</b>	
Julian Gosse	-	-	-	-	-	-	-	-	-
Richard England	-	-	-	-	-	-	-	-	-
Roy Rose	-	-	-	-	-	-	-	-	-
Bill Mobbs	500,000	-	-	(250,000)	250,000	-	-	250,000	-
Susan Williams	500,000	-	(500,000)	-	-	-	-	-	-
Stephanie Norrell (USA)	700,000	-	-	(200,000)	500,000	500,000	500,000	-	-
David Laffar (UK)	700,000	-	-	(200,000)	500,000	500,000	500,000	-	-
Frank Kubik (Malaysia)	700,000	-	-	(200,000)	500,000	500,000	500,000	-	-
Avtar Kashmirian	500,000	-	-	-	500,000	500,000	500,000	-	-
	<b>3,600,000</b>	<b>-</b>	<b>(500,000)</b>	<b>(850,000)</b>	<b>2,250,000</b>	<b>2,000,000</b>	<b>2,000,000</b>	<b>250,000</b>	<b>-</b>

The net change other reflected above includes those options that have been forfeited by holders as well as options issued during the year under review.

**(g) Shareholdings**

**Number of Shares held by Parent Entity Key Management Personnel**

<b>Key Management Personnel</b>	<b>Balance 1/7/05</b>	<b>Received as Compensation</b>	<b>Options Exercised</b>	<b>Net Change other*</b>	<b>Balance 30/6/06</b>
Julian Gosse	300,000	-	-	50,000	<b>350,000</b>
Richard England	412,000	-	-	-	<b>412,000</b>
Roy Rose	-	-	-	350,000	<b>350,000</b>
Bill Mobbs	22,335,000	-	-	-	<b>22,335,000</b>
Susan Williams	40,000	-	500,000	-	<b>540,000</b>
Stephanie Norrell (USA)	680,000	-	-	-	<b>680,000</b>
David Laffar (UK)	680,000	-	-	(310,000)	<b>370,000</b>
Frank Kubik (Malaysia)	800,000	-	-	-	<b>800,000</b>
Avtar Kashmirian	443,090	-	-	-	<b>443,090</b>
	<b>25,690,090</b>	<b>-</b>	<b>500,000</b>	<b>90,000</b>	<b>26,280,090</b>

\* Net change other refers to shares purchased or sold during the financial year.

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 6: Income Tax Expense</b>				
a. The components of tax expense comprise:				
Current tax	17,308	(72,835)	(247,680)	64,421
Deferred tax	857,654	(581,236)	86,948	139,307
(Over)/under provision in respect of prior years	(437,041)	309,601	-	(97,855)
	<u>437,921</u>	<u>(344,470)</u>	<u>(160,732)</u>	<u>105,873</u>
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on profit before income tax at 30% (2005: 30%)				
- economic entity	1,108,592	(113,092)	-	-
- parent entity	-	-	(125,367)	(567,755)
	<u>1,108,592</u>	<u>(113,092)</u>	<u>(125,367)</u>	<u>(567,755)</u>
Add:				
Tax effect of:				
- non-deductible depreciation and amortisation	(10,453)	(1,199)	-	(1,199)
- other non-allowable items	512	(3,276)	-	(3,276)
- fines and penalties	(82,108)	-	14,123	-
- non-deductible entertainment	6,083	-	(4,740)	-
- under provision for income tax in prior years	(437,041)	(309,601)	-	(97,855)
	<u>585,585</u>	<u>(427,168)</u>	<u>(115,984)</u>	<u>(670,085)</u>
Less:				
Tax effect of:				
- foreign currency exchange profit not subject to income tax	-	(1,658)	-	(1,658)
- revaluation of shares not subject to income tax	21,000	-	21,000	-
- other allowable items	(168,664)	84,356	(65,748)	777,616
	<u>437,921</u>	<u>(344,470)</u>	<u>(160,732)</u>	<u>105,873</u>
Income tax attributable to entity	<u>437,921</u>	<u>(344,470)</u>	<u>(160,732)</u>	<u>105,873</u>
The applicable weighted average effective tax rates are as follows:	11.8%	-		

The tax position of the Economic Entity has not matured properly to allow meaningful comparison of weighted average effective tax rates due to the Economic Entity coming out of a cumulative tax loss position.

**Notes to the financial statements**

	<b>Economic Entity 2006</b>	<b>Economic Entity 2005</b>	<b>Parent Entity 2006</b>	<b>Parent Entity 2005</b>
	\$	\$	\$	\$
<b>Note 7: Auditors' Remuneration</b>				
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	71,000	91,500	71,000	91,500
— taxation services	110,213	226,876	110,213	224,436
— other services	-	34,925	-	33,425
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	9,380	5,020	-	-
<b>Note 8: Dividends</b>				
Distributions paid				
No dividends were declared or paid during the period				
a. Proposed final fully franked ordinary dividend of 1 (2005: nil) cent per share franked at the tax rate of 30%	1,013,140	-	1,013,140	-
b. Balance of franking account at year end	2,187,658	2,187,658	2,187,658	2,187,658
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(434,203)	-	(434,203)	-
	<u>1,753,455</u>	<u>2,187,658</u>	<u>1,753,455</u>	<u>2,187,658</u>
<b>Note 9: Earnings per Share</b>				
Earnings per share is calculated based on the operating profit after income tax	3,257,385	(32,502)	-	-
Weighted average number of ordinary shares used in the calculation of basic EPS	100,299,479	99,614,000	-	-
Weighted average number of options outstanding	4,090,274	3,498,367	-	-
Weighted average number of ordinary shares used in the calculation of dilutive EPS	<u>104,389,753</u>	<u>103,112,367</u>	-	-

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
<b>Note 10: Cash and cash equivalents</b>				
Cash on hand	2,295	3,233	500	500
Cash at bank	5,375,075	4,376,089	1,787,695	2,049,588
	<b>5,377,370</b>	<b>4,379,322</b>	<b>1,788,195</b>	<b>2,050,088</b>

**Reconciliation of cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

Cash	5,377,370	4,379,322	1,788,195	2,050,088
Bank overdrafts	(1,941,037)	(162,706)	-	-
	<b>3,436,333</b>	<b>4,216,616</b>	<b>1,788,195</b>	<b>2,050,088</b>

**Note 11: Trade and other receivables**

**Current**

Trade debtors	6,833,945	4,092,609	-	2,738
Other debtors	189,496	17,236	(79,214)	-
Accrued revenue	368,525	119,240	21,761	10,571
GST and other tax	(62,359)	(148,155)	9,008	66,099
	<b>7,329,607</b>	<b>4,080,930</b>	<b>(48,445)</b>	<b>79,408</b>

**Note 12: Inventories**

**At cost**

Raw materials and stores	3,213,446	2,001,323	-	-
Work in progress	507,148	108,471	-	-
Finished goods	3,980,874	3,053,593	-	-
	<b>7,701,468</b>	<b>5,163,387</b>	<b>-</b>	<b>-</b>

**Note 13: Financial assets**

Shares in listed corporations, at fair value	105,000	175,000	105,000	175,000
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**Note 14: Other assets**

Deposits to suppliers	198,252	156,957	3,520	-
Other fees on purchase of assets	86,403	435,379	69,897	92,527
Prepayments	242,353	261,100	88,416	134,143
	<b>527,008</b>	<b>853,436</b>	<b>161,833</b>	<b>226,670</b>

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 15: Property, plant and equipment</b>				
<b>Land and buildings</b>				
Leasehold Land at cost	759,904	231,095	-	-
Less: accumulated depreciation	(900)	(10,514)	-	-
Total Leasehold Land	<u>759,004</u>	<u>220,581</u>	-	-
Buildings at cost	-	971,066	-	-
Less: accumulated depreciation	-	(76,631)	-	-
Total Buildings	<u>-</u>	<u>894,435</u>	-	-
Land and Buildings at valuation	2,028,577	745,000	770,000	745,000
Less: accumulated depreciation	(17)	-	-	-
Total Land and Buildings at valuation	<u>2,028,560</u>	<u>745,000</u>	<u>770,000</u>	<u>745,000</u>
<b>Total Land and buildings</b>	<u>2,787,564</u>	<u>1,860,016</u>	<u>770,000</u>	<u>745,000</u>
<b>Plant and equipment</b>				
Furniture & Fittings at cost	642,552	475,817	183,995	183,518
Less : accumulated depreciation	(367,279)	(315,371)	(178,669)	(177,237)
Total Furniture & Fittings	<u>275,273</u>	<u>160,446</u>	<u>5,326</u>	<u>6,281</u>
Computer & office equipment at cost	1,210,185	912,808	88,713	67,659
Less : accumulated depreciation	(894,764)	(619,682)	(45,482)	(21,067)
Total computer & office equipment	<u>315,421</u>	<u>293,126</u>	<u>43,231</u>	<u>46,592</u>
Leasehold Improvements at cost	317,766	101,002	5,939	-
Less : accumulated depreciation	(86,608)	(50,164)	(288)	-
Total Leasehold Improvements	<u>231,158</u>	<u>50,838</u>	<u>5,651</u>	<u>-</u>
Computer software at cost	572,747	424,999	322,334	196,791
Less : accumulated depreciation	(347,405)	(202,032)	(145,498)	(57,889)
Total Computer software at cost	<u>225,342</u>	<u>222,967</u>	<u>176,836</u>	<u>138,902</u>
Motor Vehicles at cost	68,722	18,058	-	-
Less : accumulated depreciation	(58,238)	(7,374)	-	-
Total Motor Vehicle	<u>10,484</u>	<u>10,684</u>	<u>-</u>	<u>-</u>
<b>Total plant and equipment</b>	<u>1,057,678</u>	<u>738,061</u>	<u>231,044</u>	<u>191,775</u>
<b>Total property, plant and equipment</b>	<u><b>3,845,242</b></u>	<u><b>2,598,077</b></u>	<u><b>1,001,044</b></u>	<u><b>936,775</b></u>

The group's land and buildings were revalued at 30 June 2006 by independent valuers. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders' equity.

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**Notes to the financial statements**

**Note 15: Property, plant and equipment (cont'd)**

**(a) Movements in carrying amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Balance at the beginning of year	Additions	Acquisition of subsidiary	Revaluation increment / (decrement)	Foreign exchange gain/(loss)	Depreciation expense	Disposal	Carrying amount at the end of year
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Economic Entity</b>								
Leasehold Land	220,581	759,904	-	(235,457)	17,425	(3,449)	-	<b>759,004</b>
Buildings	894,435	7,708	-	(959,985)	78,388	(20,546)	-	-
Land & buildings	745,000	-	-	1,302,201	-	(18,641)	-	<b>2,028,560</b>
Furniture & Fittings	160,446	134,673	11,479	-	11,119	(38,314)	(4,130)	<b>275,273</b>
Computer & office Equipment	293,126	154,159	22,327	-	5,248	(154,457)	(4,982)	<b>315,421</b>
Leasehold Improvements	50,838	198,600	7,828	-	1,986	(24,524)	(3,570)	<b>231,158</b>
Computer software	222,967	142,529	-	-	2,329	(141,749)	(734)	<b>225,342</b>
Motor Vehicle	10,684	-	4,879	-	52	(5,131)	-	<b>10,484</b>
<b>Total</b>	<b>2,598,077</b>	<b>1,397,573</b>	<b>46,513</b>	<b>106,759</b>	<b>116,547</b>	<b>(406,811)</b>	<b>(13,416)</b>	<b>3,845,242</b>
<b>Parent Entity</b>								
Land & buildings	745,000	-	-	43,624	-	(18,624)	-	<b>770,000</b>
Furniture & Fittings	6,281	477	-	-	-	(1,432)	-	<b>5,326</b>
Computer & office Equipment	46,592	21,054	-	-	-	(24,415)	-	<b>43,231</b>
Leasehold Improvements	-	5,939	-	-	-	(288)	-	<b>5,651</b>
Computer software	138,902	125,543	-	-	-	(87,609)	-	<b>176,836</b>
<b>Total</b>	<b>936,775</b>	<b>153,013</b>	<b>-</b>	<b>43,624</b>	<b>-</b>	<b>(132,368)</b>	<b>-</b>	<b>1,001,044</b>

Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
\$	\$	\$	\$

**Note 16: Product development, tools**

Product Design :

At cost	5,025,262	2,794,588	-	-
Less : accumulated depreciation	(443,825)	(436,616)	-	-
<b>Total Product Design</b>	<b>4,581,437</b>	<b>2,357,972</b>	<b>-</b>	<b>-</b>

**Total Product development**

<b>4,581,437</b>	<b>2,357,972</b>	<b>-</b>	<b>-</b>
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Product Tools :

At cost	2,970,717	3,453,272	-	-
Less : accumulated depreciation	(1,236,261)	(1,437,105)	-	-
<b>Total Product tools</b>	<b>1,734,456</b>	<b>2,016,167</b>	<b>-</b>	<b>-</b>

Production, QA, Lab Equipment :

At cost	138,503	122,780	-	-
Less : accumulated depreciation	(54,120)	(37,828)	-	-
<b>Total Production, QA and Lab Equipment</b>	<b>84,383</b>	<b>84,952</b>	<b>-</b>	<b>-</b>

**Total Product tools and production**

<b>1,818,839</b>	<b>2,101,119</b>	<b>-</b>	<b>-</b>
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**Total Product development and tools**

<b>6,400,276</b>	<b>4,459,091</b>	<b>-</b>	<b>-</b>
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**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

**Note 16: Product development and tools (Cont'd)**

**(a) Movements in carrying amounts**

Movement in the carrying amounts for each class of Product development, tools and production between the beginning and the end of the current financial year:

	Balance at the beginning of year \$	Additions \$	Acquisition of subsidiary \$	Foreign exchange gain/(loss) \$	Depreciation /amortisation Expense \$	Disposal \$	Carrying amount at the end of year \$
<b>Economic Entity</b>							
Product design	2,357,972	2,782,669	-	-	(151,771)	(407,433)	<b>4,581,437</b>
Product tools	2,016,167	(1,396)	3,463	135,453	(326,292)	(92,939)	<b>1,734,456</b>
Production, QA and lab	84,952	6,652	-	6,115	(12,988)	(348)	<b>84,383</b>
Total	4,459,091	2,787,925	3,463	141,568	(491,051)	(500,720)	<b>6,400,276</b>

**(b) Impairment losses**

The total impairment loss recognised in the income statement during the year amounted to \$485,769 and is separately presented in the income statement as 'impairment of capitalised research and development and tools'.

During the year it was identified that several product lines had indications of limited sales into the future, the capitalised development costs and tools related to these products were impaired by 50 to 100% based on the projected future activity and usefulness to the economic entity.

	<b>Economic Entity 2006</b> \$	<b>Economic Entity 2005</b> \$	<b>Parent Entity 2006</b> \$	<b>Parent Entity 2005</b> \$
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**Note 17: Intangible assets**

Patents, trademarks and licenses at cost	1,948,790	1,896,753	-	-
Less : accumulated amortisation	(1,137,012)	(985,915)	-	-
	<u>811,778</u>	<u>910,838</u>	-	-
Goodwill at cost	9,448,001	7,669,652	-	-
	<u><b>10,259,779</b></u>	<u><b>8,580,490</b></u>	-	-

**(a) Movements in carrying amounts**

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year:

	Balance at the beginning of year \$	Additions \$	Acquisitions through business combinations \$	Amortisation Expense \$	Disposal \$	Carrying amount at the end of year \$
<b>Economic Entity</b>						
Patents, trademarks and licenses	910,838	52,037	-	(151,097)	-	<b>811,778</b>
Goodwill	7,669,652	-	1,778,349	-	-	<b>9,448,001</b>
Total	8,580,490	52,037	1,778,349	(151,097)	-	<b>10,259,779</b>

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 18: Investments accounted for using the consolidation method</b>				
ITL Needleguard Pty Ltd (closed 23/7/06)	-	-	5,000,000	5,000,000
ITL Corporation Pty Ltd	-	-	200	200
Noble House Group Pty Ltd	-	-	200	200
Cedrica Group Limited	-	-	4	4
ITL Europe Ltd	-	-	5	5
ITL Design and Manufacturing Pty Ltd	-	-	1	1
ITL Healthcare Pty Ltd	-	-	2	2
ITL Asia Pacific Sdn Bhd	-	-	4,769,742	4,769,742
ITL Healthcare Sdn Bhd	-	-	1,881,232	-
	<b>-</b>	<b>-</b>	<b>11,651,386</b>	<b>9,770,154</b>

**Note 19: Intercompany loans**

ITL Corporation Pty Ltd	-	-	2,658,431	2,471,097
Noble House Group Pty Ltd	-	-	-	(44,904)
ITL Asia Pacific Sdn Bhd	-	-	9,299	8,632
ITL Healthcare Pty Ltd	-	-	7,703,787	8,392,133
ITL Healthcare Sdn Bhd	-	-	302,912	-
	<b>-</b>	<b>-</b>	<b>10,674,429</b>	<b>10,826,958</b>

**Note 20: Trade and other payables**

*Unsecured liabilities*

Trade creditors	3,238,047	1,996,586	254,862	396,609
Sundry creditors and accrued expenses	3,505,272	2,597,792	441,831	288,270
	<b>6,743,319</b>	<b>4,594,378</b>	<b>696,693</b>	<b>684,879</b>

**Note 21: Interest Bearing Liabilities**

**Current**

*Secured liabilities*

Bank overdrafts	1,941,037	162,706	-	-
Bank loans	95,814	143,603	-	-
Hire purchase liability	195,616	178,212	-	-
	<b>2,232,467</b>	<b>484,521</b>	<b>-</b>	<b>-</b>

**Non Current**

*Secured liabilities*

Bank loans	667,944	335,423	-	-
Hire purchase liability	192,605	95,761	-	-
	<b>860,549</b>	<b>431,184</b>	<b>-</b>	<b>-</b>

(a) Total current and non-current secured liabilities:

Bank overdraft	1,941,037	162,706	-	-
Bank loan	763,758	479,026	-	-
Hire purchase liability (refer note 27 (a))	388,220	273,973	-	-
	<b>3,093,015</b>	<b>915,705</b>	<b>-</b>	<b>-</b>

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 21: Interest Bearing Liabilities (Cont'd)</b>				
(b) The carrying amounts of non-current assets pledged as security are:				
First mortgage				
Land and buildings	1,258,560	1,123,172	-	-
Hire purchase assets (net liability)	-	648,592	-	-
Other assets pledged as security	301,371	2,291	-	-
Total assets pledged as security	<u>1,559,931</u>	<u>1,774,055</u>	-	-

(c) The bank overdraft, mortgage loans and other finance facilities of ITL Asia Pacific Sdn Bhd are secured by registered 1<sup>st</sup> to 3<sup>rd</sup> legal charge over 4 units one and a half storey detached factories of the subsidiary, 1<sup>st</sup> to 9<sup>th</sup> debenture charge over both current & future fixed and floating assets of the overseas subsidiary and a parent entity corporate guarantee.

Heal Marketing Sdn Bhd has security for its bank overdrafts, bankers' acceptance and trust receipts by fixed charges over third party land and buildings, sinking funds, a fixed and floating charge over the present and future fixed and current assets of the Heal Marketing Sdn Bhd, joint and several guarantee by the directors of Heal Marketing Sdn Bhd and a pledge of fixed deposits of Heal Marketing Sdn Bhd.

(d) Heal Marketing Sdn Bhd's Hire purchase liability is secured by a guarantee.

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 22: Tax</b>				
<b>a. Liabilities</b>				
<b>Current</b>				
Income tax	<b>74,020</b>	<b>(969,758)</b>	-	<b>(978,172)</b>
<b>Non Current</b>				
Deferred tax liability comprises:				
Tax allowances relating to property, plant and equipment	165,779	158,621	192,843	158,621
Revaluation adjustments taken directly to equity	(184,316)	(176,816)	(184,316)	(176,816)
Other	62,031	360,477	357,336	360,195
	<b>43,494</b>	<b>342,282</b>	<b>365,863</b>	<b>342,000</b>
<b>b. Assets</b>				
There are no deferred tax assets.				
<b>c. Reconciliations</b>				
<b>i. Gross Movements</b>				
The overall movement in the deferred tax account is as follows:				
Opening balance	342,282	128,442	342,000	128,442
(Charge) / credit to income statement (note 6)	(273,454)	73,671	60,572	73,389
Charge to equity	(25,334)	140,169	(36,709)	140,169
Closing balance	43,494	342,282	365,863	342,000
<b>ii. Deferred Tax Liability</b>				
The movement in deferred tax liability for each temporary difference during the year is as follows:				
Tax allowances relating to property, plant and equipment:				
Opening balance	158,621	17,031	158,621	17,031
Charged to income statement	7,158	141,590	34,222	141,590
Closing balance	165,779	158,621	192,843	158,621
Tangible assets revaluation adjustments taken directly to equity:				
Opening balance	(176,816)	-	(176,816)	-
Net revaluations during the current period	(7,500)	(176,816)	(7,500)	(176,816)
Closing balance	(184,316)	(176,816)	(184,316)	(176,816)
Other:				
Opening balance	360,477	111,411	360,195	111,411
Charged to income statement	(298,446)	249,066	(2,859)	248,784
Closing balance	62,031	360,477	357,336	360,195

**Notes to the financial statements**

**Note 22: Tax (Cont'd)**

**iii. Deferred Tax Assets**

There were no movements in deferred tax assets for each temporary difference during the year.

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 23: Provisions</b>				
<b>Current</b>				
Employee entitlements	<u>540,557</u>	<u>365,587</u>	<u>185,292</u>	<u>66,663</u>
<b>Non-current</b>				
Employee entitlements	<u>33,256</u>	<u>-</u>	<u>33,256</u>	<u>-</u>

	<b>Opening balance at 1 July 2005 \$</b>	<b>Additional provisions \$</b>	<b>Amounts used \$</b>	<b>Balance at 30 June 2006 \$</b>
<b>Economic Entity</b>				
Employee entitlements	<u>365,587</u>	<u>360,198</u>	<u>(151,972)</u>	<u>573,813</u>
<b>Parent Entity</b>				
Employee entitlements	<u>66,663</u>	<u>242,887</u>	<u>(91,002)</u>	<u>218,548</u>

**Provision for non-current employee entitlements**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 24: Other liabilities</b>				
Cost reduction of buildings	-	-	-	79,160
Deferred TINA R&D grant income – includes amounts in advance	<u>2,011,384</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,011,384</u>	<u>-</u>	<u>-</u>	<u>79,160</u>

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 25: Contributed equity</b>				
101,314,000 (2005: 99,614,000) fully paid ordinary shares	<b>28,103,050</b>	<b>27,700,200</b>	<b>28,103,050</b>	<b>27,700,200</b>
<b>a. Ordinary shares</b>				
At beginning of reporting period	27,700,200	27,700,200	27,700,200	27,700,200
Shares issued during the period:				
1,200,000 shares issued on 20 January 2006	270,000	-	270,000	-
500,000 shares issued on 8 March 2006	100,000	-	100,000	-
Value of options issued but not exercised:	32,850	-	32,850	-
	<b>28,103,050</b>	<b>27,700,200</b>	<b>28,103,050</b>	<b>27,700,200</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
At beginning of period	99,614,000	99,614,000	99,614,000	99,614,000
Shares issued during the period:				
1,200,000 shares issued on 20 January 2006	1,200,000	-	1,200,000	-
500,000 shares issued on 8 March 2006	500,000	-	500,000	-
	<b>101,314,000</b>	<b>99,614,000</b>	<b>101,314,000</b>	<b>99,614,000</b>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on show of hands.

**b. Options**

- i. For information relating to the ITL Limited share options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end, refer to Note 36 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 36 Share-based Payments.

**Note 26: Reserves**

**(a) Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

**(b) Asset Revaluation Reserve**

The asset revaluation reserve records revaluations of non-current assets.

**Notes to the financial statements**

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
<b>Note 27: Capital and Leasing Commitments</b>				
<b>(a) Hire purchase payables</b>				
Payable				
- not later than 1 year	217,679	218,404	-	-
- later than 1 year but not later than 5 years	199,539	119,704	-	-
- later than 5 years	-	-	-	-
Minimum hire purchase payments	417,218	338,108	-	-
Less future finance charges	(28,998)	(64,135)	-	-
Total hire purchase liability	388,220	273,973	-	-
Hire purchase payables relate to hire purchase liabilities held over assets purchased by the company.				
<b>(b) Property rent and lease commitments</b>				
Payable				
- not later than 1 year	163,582	311,366	-	-
- later than 1 year but not later than 5 years	75,714	231,584	-	-
- later than 5 years	-	-	-	-
	239,296	542,950	-	-
Property rent and lease commitments relates to office premises in Australia, the UK and USA				
<b>(c) Operating lease commitments</b>				
Payable				
- not later than 1 year	19,358	16,358	-	-
- later than 1 year but not later than 5 years	28,304	19,939	-	-
- later than 5 years	-	-	-	-
	47,662	36,297	-	-
Operating lease relates to office equipment				
<b>(d) Capital commitments</b>				
Payable				
- not later than 1 year	521,304	-	-	-
- later than 1 year but not later than 5 years	-	-	-	-
- later than 5 years	-	-	-	-
	521,304	-	-	-
On 29 June 2006 Heal Marketing Sdn Bhd entered into an agreement to purchase the building it resides in from a partnership which includes Foo Chee Kim, an officer and shareholder of ITL Limited.				
Total Capital and Leasing Commitments	1,196,482	853,220	-	-

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
<b>Note 28: Cash Flow Information</b>				
<b>(a) Reconciliation of Cash Flows from Operations with Profit/(loss) after Income Tax</b>				
Profit/(loss) after income tax	3,257,385	(32,502)	(257,159)	(1,998,389)
Cash flows excluded from profit/(loss) from ordinary activities attributable to operating activities				
Non-cash flows in profit/(loss):				
Depreciation and Amortisation	1,048,958	995,456	132,368	96,146
Net (gain)/loss on disposal of property, plant and equipment	(54,504)	(9,546)	(79,160)	-
Work performed by the entity and capitalised	(1,175,929)	-	-	-
Write-off of capitalised development costs	485,769	964,036	-	126,632
Write-off of Inventory	-	193,962	-	-
Unrealised loss on foreign currency transactions	91,082	108,466	-	-
Corporate recharge income	-	-	(2,174,832)	-
Income on change in company structure	-	-	-	(274,608)
Assumption of tax liabilities from subsidiaries	-	-	(470,711)	449,055
Loss on revaluation of land and buildings	3,344	-	-	-
Loss on revaluation of listed shares	70,000	-	70,000	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:				
(Increase)/decrease in trade and term debtors	(1,046,099)	(861,572)	135,523	(62,755)
(Increase)/decrease in prepayments	93,860	109,967	45,727	(87,491)
(Increase)/decrease in accrued income	(249,285)	12,997	(11,190)	12,916
(Increase) in inventories	(1,245,081)	(546,815)	-	-
Decrease in deferred tax asset	-	431,312	-	431,312
Increase in trade creditors and accruals	804,504	114,833	11,814	466,579
Increase in other liabilities	2,011,384	-	-	-
Increase/(decrease) in taxes payable	750,189	(998,836)	679,665	(920,121)
Increase in provisions	208,226	24,322	151,885	34,113
<b>Cash flow from operations</b>	<b>5,053,803</b>	<b>506,080</b>	<b>(1,766,070)</b>	<b>(1,726,611)</b>

**(b) Acquisition of Entities**

Surgicare Pty Limited

On 24 October 2003 100% of the controlled entity was acquired. Details of the transaction are:

Costs associated with acquisition	104,375	63,681	-	-
Total purchase	104,375	63,681	-	-
Goodwill on acquisition	104,375	63,681	-	-
Total additional cost for Surgicare Pty Limited	104,375	63,681	-	-

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 28: Cash Flow Information (Cont'd)</b>				
<b>(b) Acquisition of Entities (Cont'd)</b>				
Heal Marketing Sdn Bhd and Heal Mediware Sdn Bhd				
On 1 January 2006 100% of the controlled entity was acquired. Details of the transaction are:				
Purchase consideration	2,160,786	423,860	-	-
Cash consideration	1,675,620	266,820	-	-
Share issue consideration	270,000	-	-	-
Options issue consideration	32,850	-	-	-
Costs associated with acquisition	182,316	157,040	-	-
Unpaid consideration	465,450	-	-	-
<b>Total purchase</b>	<b>2,626,236</b>	<b>423,860</b>	<b>-</b>	<b>-</b>
Fair value of assets acquired (see below)	899,752	-	-	-
Other financial assets	-	423,860	-	-
Goodwill	1,673,974	-	-	-
Foreign currency reserve movements	52,510	-	-	-
	<b>2,626,236</b>	<b>423,860</b>	<b>-</b>	<b>-</b>
Assets and liabilities held at acquisition date:				
Cash	377,243	-	-	-
Receivables	1,946,472	-	-	-
Inventories	1,293,000	-	-	-
Prepayments	75,113	-	-	-
Property, plant and equipment	49,975	-	-	-
Payables	(830,871)	-	-	-
Interest-bearing liabilities	(2,023,879)	-	-	-
Tax liabilities	12,699	-	-	-
<b>Net assets acquired</b>	<b>899,752</b>	<b>-</b>	<b>-</b>	<b>-</b>
Purchase consideration settled in cash	1,675,620	266,820	-	-
Costs associated with acquisition	182,316	157,040	-	-
Less amounts paid in previous year	(423,860)	(375,492)	-	-
Cash acquired on acquisition	1,120,734	-	-	-
<b>Total cost of Heal Marketing Sdn Bhd acquisition, net of cash acquired</b>	<b>2,554,810</b>	<b>48,368</b>	<b>-</b>	<b>-</b>
<b>Total payment for Subsidiaries, net of cash acquired</b>	<b>2,659,185</b>	<b>112,049</b>	<b>-</b>	<b>-</b>

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

	Economic Entity 2006 \$	Economic Entity 2005 \$	Parent Entity 2006 \$	Parent Entity 2005 \$
<b>Note 28: Cash Flow Information (Cont'd)</b>				
<b>(c) Non-cash Financing Activities</b>				
1,200,000 ordinary shares were issued at \$0.225 as part of the consideration of the purchase of Heal Marketing Sdn Bhd. The share issue was based on the fair value of the company determined by diligence procedures prior to the purchase.				
<b>(d) Credit Standby Arrangements with Banks</b>				
Credit facility	3,734,786	436,679	-	-
Amount utilised	2,329,257	436,679	-	-
	1,405,529	-	-	-
The major facilities are summarised as follows:				
Bank overdrafts	3,066,612	162,706	-	-
Hire purchase liability	388,220	273,973	-	-
Other	279,954	-	-	-
	3,734,786	436,679	-	-
<b>(c) Loan facilities</b>				
Loan facility	1,508,478	479,026	-	-
Amount utilised	763,758	479,026	-	-
	744,720	-	-	-
The major facilities are summarised as follows:				
Bank loans	1,508,478	479,026	-	-

**Note 29: Contingent Liabilities and Contingent Assets**

**US Patent Litigation**

The Platypus® litigation is currently on appeal by ITL and its co-defendants, JMS. A Jury Trial was held during February to April 2004. The Jury found ITL not to have infringed and five of the eight patent claims in question were made invalid. However, the Jury found that the remaining three claims were valid and infringed by JMS (ITL's distributor). Due to a prior joint defence agreement with JMS, ITL expensed \$1.1 million as its share of the possible settlement in 2004. The Appeal court met on 6 March 2006 to hear the oral argument component of the appeal process but as at the date of this report no judgement has been handed down.

**Surgicare Completion Accounts Dispute**

The former owners of Surgicare Pty Ltd, (the company ITL purchased in October 2003) lodged a dispute in August 2004 with an arbitrator regarding the completion accounts. The dispute at that time involved approximately \$400,000, which if ITL was unsuccessful, would be capitalised into the Investment in Surgicare Pty Ltd. The parties attended mediation which did not result in any agreement. ITL was served with a writ and a summons and has lodged a counter-claim applying for the court for rectification of the share purchase contract. The parties attended a second mediation in June 2006, at which the lawyers of the former owners of Surgicare Pty Ltd added a further approximately \$500,000 to the amount claimed. This second amount is for ATO interest refunds received by Surgicare Pty Ltd, and further ATO refunds and an insurance claim that the former owners allege could be received by Surgicare Pty Ltd if these cases were more vigorously pursued.

**ITL Limited and Controlled Entities**  
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**Notes to the financial statements**

**Note 30: Controlled Entities**

**(a) Controlled Entities**

	<b>Country of Incorporation</b>	<b>Percentage Owned (%) 2006</b>	<b>Percentage Owned (%) 2005</b>
<b>Parent Entity</b>			
ITL Limited	Australia	-	-
<b>Subsidiaries of ITL Limited</b>			
ITL Needleguard Corporation Pty Limited (closed 23/7/06)	Australia	100%	100%
ITL Corporation Pty Limited	Australia	100%	100%
Noble House Group Pty Limited	Australia	100%	100%
ITL North America Inc	USA	100%	100%
ITL Europe Limited	UK	100%	100%
ITL Asia Pacific Sdn Bhd	Malaysia	100%	100%
ITL Design and Manufacturing Pty Limited	Australia	100%	100%
ITL HealthCare Pty Limited	Australia	100%	100%
ITL HealthCare Sdn Bhd	Malaysia	100%	100%

**Subsidiaries of ITL HealthCare Pty Limited**

Surgicare Pty Limited	Australia	100%	100%
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**Subsidiaries of ITL HealthCare Sdn Bhd**

Heal Marketing Sdn Bhd	Malaysia	100%	-
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**Subsidiaries of Heal Marketing Sdn Bhd**

Heal Mediware Sdn Bhd	Malaysia	100%	-
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**(b) Controlled Entities Acquired**

On 1 January 2006 the ITL Healthcare Sdn Bhd acquired 100% of Heal Marketing Sdn Bhd and its wholly owned subsidiary Heal Mediware Sdn Bhd for a purchase consideration of \$1,675,620, 1,200,000 shares in ITL Limited valued at \$270,000 and 500,000 options in ITL Limited shares valued at \$32,850 (using the Black-Scholes method), there were also costs of \$182,316 associated with the transaction. At 30 June 2006 an earn out clause in the purchase agreement was achieved meaning an extra \$465,450 is payable.

**(c) Controlled Entities Closed**

ITL Needleguard Corporation Pty Limited was closed on 23/7/06.

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2006 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 31: Related party Transactions</b>				
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated				
Transactions with related parties:				
(i) Ultimate Parent Company				
None				
(ii) Entities within wholly owned group				
Heal Marketing Sdn Bhd has entered into an agreement to purchase the building it resides in from a partnership which includes Foo Chee Kim, an officer and shareholder of ITL Limited. The value of this is disclosed in Note 27 (d) Capital Commitments.				
(iii) Directors				
Companies associated with directors were paid	-	6,000	-	6,000
(iv) Share Transactions of Directors				
Directors' and Director – related entities' share holdings directly, indirectly or beneficially held as at the reporting date are disclosed in Note 5.				

**Note 32: Subsequent Events**

During July 2006 the Economic Entity entered into an agreement to purchase approximately \$1.5 million of capital equipment with full payment due late in the 2006/07 financial year.

During July 2006 the Economic Entity entered into an agreement to lease new facilities. The lease commitment over the next 5 years is for approximately \$2.1 million.

There are no other matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operation of the company and consolidated entity, the result of those operations or state of affairs of the company and consolidated entity in future financial year.

**Note 33: Financial Instruments**

**(a) Financial Risk Management**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group businesses whilst managing its interest rate, foreign exchange, liquidity and credit risk. The Group operates within clearly defined guidelines that are approved by the Board and the Group policy is not to engage in speculative transactions.

i. Treasury Risk Management

Head office management regularly review currency and interest rate exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii. Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

**Notes to the financial statements**

**Note 33: Financial Instruments (Cont'd)**

**(a) Financial Risk Management (Cont'd)**

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. For further details on interest rate risk refer to Note 38(b)(i).

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group contains its exposure to currency risk by maintaining cash balances in the most exposed currencies.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts and interest rate swaps is the net fair value of these contracts as disclosed in Note 38.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

**(b) Financial Instruments**

**i. Interest Rate Risk**

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Non-Interest Bearing Rate		Floating Interest Rate		Fixed Interest Within 1 Year		Rate Maturing 1 to 5 Years	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Financial Assets</b>								
Cash on hand	2,295	3,233	-	-	-	-	-	-
Cash at bank	-	-	5,375,075	4,376,089	-	-	-	-
Receivables	7,329,609	4,080,930	-	-	-	-	-	-
<b>Total Financial Assets</b>	<b>7,331,904</b>	<b>4,084,163</b>	<b>5,375,075</b>	<b>4,376,089</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Weighted Average Effective Interest Rate	-	-	3.20%	2.96%	-	-	-	-
<b>Financial Liabilities</b>								
Trade accounts payable	6,743,319	4,594,378	-	-	-	-	-	-
Bank overdraft	-	-	1,941,037	162,706	-	-	-	-
Bank loans	-	-	-	479,026	95,814	-	667,944	-
Hire purchase liability	-	-	-	-	195,616	178,212	192,605	95,761
<b>Total Financial Liabilities</b>	<b>6,743,319</b>	<b>4,594,378</b>	<b>1,941,037</b>	<b>641,732</b>	<b>291,430</b>	<b>178,212</b>	<b>860,549</b>	<b>95,761</b>
Weighted Average Effective Interest Rate	-	-	5.49%	6.10%	8.38%	5.11%	8.57%	5.11%

**Notes to the financial statements**

**Note 33: Financial Instruments (Cont'd)**

**(b) Financial Instruments (Cont'd)**

**ii. Net Fair Values**

The net fair values of term debtors and government and fixed interest securities and bonds are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.

The net fair values of listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

The net fair values of other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.

For other assets and other liabilities the net fair value approximates their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity.

	<b>2006</b>	
	<b>Carrying amount</b>	<b>Net fair value</b>
	<b>\$</b>	<b>\$</b>
Financial Assets		
Loans and receivables	<u>7,329,609</u>	<u>7,329,609</u>
Financial Liabilities		
Other loans and amounts due	<u>7,895,298</u>	<u>7,895,298</u>

Fair values are materially in line with carrying values.

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>
<b>Note 34: Segment Reporting</b>		
<b>Primary Reporting – Business Segment</b>		
<b>Segment revenue</b>		
- Innovative products division (IPD)	9,602,058	9,460,009
- Procedure kit and equipment division (HSD)	21,553,597	14,550,327
- Corporate and other	118,602	204,825
	<u>31,274,257</u>	<u>24,215,161</u>
<b>Segment result</b>		
- Innovative products division (IPD) <sup>1</sup>	2,455,759	2,810,676
- Procedure kit and equipment division (HSD) <sup>2</sup>	3,292,128	(539,060)
- Corporate and other	(2,490,502)	(2,304,118)
	<u>3,257,385</u>	<u>(32,502)</u>
<b>Segment assets</b>		
- Innovative products division (IPD)	16,588,306	12,612,959
- Procedure kit and equipment division (HSD)	19,209,178	11,468,191
- Corporate and other	5,748,266	6,208,583
	<u>41,545,750</u>	<u>30,289,733</u>
<b>Segment liabilities</b>		
- Innovative products division (IPD)	5,815,351	3,672,329
- Procedure kit and equipment division (HSD)	5,913,269	1,591,301
- Corporate and other	810,426	(15,436)
	<u>12,539,046</u>	<u>5,248,194</u>
<b>Acquisitions on non-current segment assets</b>		
- Innovative products division (IPD)	5,109,783	1,618,319
- Procedure kit and equipment division (HSD)	2,124,119	186,532
- Corporate and other	153,013	284,235
	<u>7,386,915</u>	<u>2,089,086</u>
<b>Depreciation and amortisation of segment assets</b>		
- Innovative products division (IPD)	806,737	738,601
- Procedure kit and equipment division (HSD)	113,422	160,709
- Corporate and other	132,368	96,146
	<u>1,052,527</u>	<u>995,456</u>
Less: Depreciation included in COGS	(330,191)	(241,040)
	<u>722,336</u>	<u>754,416</u>
<b><sup>1</sup> IPD result includes non-recurring:</b>		
Legal expenses – US	153,822	324,085
Impairment of capitalised research and development and related tools	485,769	111,440
	<u>639,591</u>	<u>435,525</u>
<b><sup>2</sup> HSD result includes non-recurring:</b>		
Redundancies	-	867,424
Impairment of capitalised research and development and related tools	-	792,442
	<u>-</u>	<u>1,659,866</u>

**Notes to the financial statements**

	<b>Economic Entity 2006 \$</b>	<b>Economic Entity 2005 \$</b>
<b>Note 34: Segment Reporting (cont'd)</b>		
<b>Secondary Reporting – Geographical Segment Segment Revenue</b>		
- Australia	18,867,896	16,038,934
- North America	7,660,457	6,744,758
- Europe	918,359	1,367,910
- Asia	3,827,545	63,559
	<hr/>	
	31,274,257	24,215,161
	<hr/>	
<b>Carrying Amount of Segment Asset</b>		
- Australia	27,687,337	25,610,496
- North America	309,515	239,939
- Europe	188,849	153,571
- Asia	13,360,049	4,285,727
	<hr/>	
	41,545,750	30,289,733
	<hr/>	
<b>Acquisition of non-current Asset</b>		
- Australia	3,184,287	1,879,776
- North America	89,558	16,654
- Europe	2,015	15,322
- Asia	4,111,055	177,334
	<hr/>	
	7,386,915	2,089,086
	<hr/>	

**Notes to the financial statements**

**Note 36: Share-based Payments**

**Employee Share Option Arrangement**

On 28 February 2005 4,050,000 share options were granted to all executives under the Executive Share Option Plan to accept ordinary shares at an exercise price of \$0.20. The options are exercisable between 1 March 2006 and 31 August 2006. Under the company's share trading policy employees are not permitted to trade in ITL shares between 30 June and 24 hours after the lodgement with the Australian Stock Exchange of the Appendix 4E, unless they provide, in writing, notification that they intend to exercise their options, before 30 June 2006. The options hold no voting or dividend rights, and are not transferable. When an executive ceases employment the options are deemed to have lapsed. Since balance date, no executive has ceased employment.

The closing share market price of an ordinary share of ITL Limited on the Australian Stock Exchange at 30 June 2006 was \$0.34 (30 June 2005: \$0.175).

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
(a) Movement in the number of share options held are as follows				
Opening balance	4,650,000	4,751,000	4,650,000	4,751,000
Granted during the year	500,000	4,050,000	500,000	4,050,000
Exercised during the year	500,000	-	500,000	-
Lapsed during the year	850,000	4,151,000	850,000	4,151,000
Closing balance	<b>3,800,000</b>	<b>4,650,000</b>	<b>3,800,000</b>	<b>4,650,000</b>

(b) Details of share options outstanding as at end of year:

<b>Grant Date</b>	<b>Exercise Period</b>	<b>Exercise Price</b>	<b>Economic Entity</b>		<b>Parent Entity</b>	
			<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
			<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
23/10/03	42 days after release by ASX of 30/6/05 Appendix 4E	\$0.65	-	250,000	-	250,000
23/10/03	42 days after release by ASX of 30/6/05 Appendix 4E	\$0.60	-	600,000	-	600,000
23/10/03	42 days after release by ASX of 30/6/06 Appendix 4E	\$0.70	250,000	250,000	250,000	250,000
28/2/05	1/3/06 to 31/8/06	\$0.20	3,550,000	3,550,000	3,550,000	3,550,000
			<b>3,800,000</b>	<b>4,650,000</b>	<b>3,800,000</b>	<b>4,650,000</b>

**Note 37: Company Details**

The registered office and principal place of business of the company is:

ITL Limited  
 Unit 6, 41-45 Tennant Street  
 Fyshwick ACT 2609  
 Australia

## DIRECTORS' DECLARATION

### The Directors of the company declare that:

1. the financial statements and notes, comprising the Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Notes to the financial statements are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and the economic entity;
2. the Chief Executive Officer and Chief Finance 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*;
  - (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.

The company and its wholly-owned subsidiaries ITL Needle Guard Corporation Pty Ltd ACN 072 906 319, ITL Corporation Pty Ltd ACN 085 025 538, Noble House Group Pty Ltd ACN 063 482 806, ITL Design and Manufacturing Pty Ltd ACN 105 267 070, ITL HealthCare Pty Ltd ACN 100 701 004 and Surgicare Pty Limited ACN 005 611 772 have entered into a deed of cross guarantee under which the company and its subsidiaries guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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



Director – Julian Gosse

Dated this 10<sup>th</sup> day of August 2006



**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF  
ITL LIMITED AND CONTROLLED ENTITIES**

**Scope**

**The financial report and directors' responsibility**

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors declaration for ITL Limited and Controlled Entities (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

**Audit Approach**

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ITL  
LIMITED AND CONTROLLED ENTITIES (continued)**

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration in the financial report has not changed as at the date of providing our audit opinion.

**Audit Opinion**

In our opinion, the financial report of ITL Limited and Controlled Entities is in accordance with:

- 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 2006 and of their performance for the year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- other mandatory professional reporting requirements in Australia.



A B Papps  
Registered Company Auditor  
Walter Turnbull

Canberra, ACT  
10 August, 2006

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