



Innovating Technologies for Life

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ITL Operations Review 2007

19 June 2007

Introduction

The Company confirms the forecasted revenue, net profit and EBITDA performance as previously advised in the 6 June 2007 market update.

Revenue	\$ 34.0	to	\$ 35.0	million
Net Profit	\$ 1.9	to	\$ 2.2	million
EBITDA	\$ 3.2	to	\$ 3.6	million

The company experienced a strong first half performance, on the back of capital projects in South East Asia. The last six months have been disappointing however the company expects growth to resume in FY 2007/8.

Strategic changes made this year in the Australian business unit including new facilities and in-house sterilisation have ITL well positioned for the next stage of growth.

Australian Business (Region 1) Update

Our Australian business primarily sells Customised Procedure Packs and Invasive Blood Pressure Monitoring Kits into hospital operating rooms (OR) and intensive care units (ICU). All products are sterilised consumables and ITL is the second largest player in an immature but potentially rapidly growing business.

ITL's strategy is to increase control of its supply chain to meet the growth in this market by investing in increased manufacturing capacity and vertically integrating with in-house sterilisation, which is currently outsourced. These strategies have been planned over an 18 month period with progressive implementation occurring during the last nine months.

This business has met many challenges in the past year, with sales down from \$18.0m in 2006 to around \$17.0m in 2007. The business has primarily been affected by major capacity problems at our third party sterilisation contractor (the only external supplier in Australia). During the first half of the year our throughput was reduced to a half and then eventually a quarter of our normal weekly capacity. After strong negotiation some extra capacity was made available however ITL had to validate and send shipments to Malaysia for sterilisation. This deterioration to the supply chain was overcome by January 2007 with capacity returned, but the effects have been serious and impacted on second half trading. The inability to timely satisfy customer demands resulted in lost revenues, and a high attrition rate amongst our sales staff.

We decided to restructure this business as a separate business unit. This will include the recruitment of a new divisional manager based in Melbourne. Mr Roy Rose, an ITL director, is acting in the position on

a short term basis while we complete the restructure and recruit a suitable candidate. The NSW sales force has also been re-located to ITL's Design offices at the Technology Park in Redfern.

With this business unit restructure nearing completion, a new manufacturing facility with substantially more capacity and control of our sterilisation due to come on line, and a team of highly experienced sales staff, the business unit has been transformed and is now well placed to play a leading role as a major supplier of Customised Procedure Packs into Australian hospitals.

South East Asian Sales (Region 2) Update

Our Malaysian based sales operation sells capital equipment (70%) and consumables (30%) into hospital OR and ICU areas. The capital equipment business is project driven and tends to be lumpy. This business unit has had a strong year and delivered to plan. A major supply contract with the Prince Court Medical Center awarded in May 2006, was supplied in the latter half of last financial year and the first half of this financial year. This has skewed the budgeted and actual sales mostly into the first half of the year.

Our strategy for growth in the region includes expanding into more countries in South East Asia through acquisition and to decrease the variability of capital projects by increasing the volume of consumable business. Progress towards those goals has been made with funding secured for acquisitions and due diligence commencing on a number of companies in South East Asia. An increase in consumable sales is currently restrained due to manufacturing capacity constraints in our Ipoh Malaysia facility, which will continue until our new facility is operational. This is now expected to be completed and in operation during the second half of 2008.

Global Sales (Region 3) Update

This business primarily markets ITL developed innovative consumable products, which are manufactured at ITL's Ipoh Malaysian facility and sold mainly on a business to business basis outside of Australia and South East Asia. The business has an expanding footprint in the collection and processing of blood with growth into laboratories and hospitals.

Sales are in US dollars and the business unit has delivered 8-10% growth over the previous year. Revenue growth in this region has been limited due to capacity issues at the Ipoh facility leading to increased airfreight costs to meet customer delivery times.

During the year our new irreversible blood line clamp the CrocClamp™ was developed and launched with encouraging results. We have also seen increased demand for the SSK products and variations of the SampLok® product range.

A new contract with Fenwal (formally Baxter) to supply a variant of SampLok® has recently been signed with delivery to commence in November 2007 and expected sales in excess of \$1.0m in 2008.

Our growth strategy is driven by our ability to identify and develop new products through in-house Research and Development. A number of large scale development projects are underway including TINA (refer to R&D below) and extending our blood collection expertise from humans to large animals.

This region is expected to grow by in excess of 10 per cent next year assuming the capacity bottlenecks in our Ipoh facility are resolved.

Manufacturing Update

Australia

ITL Healthcare commenced operations at its new facility in late October 2006. This new facility in Chelsea Heights, Melbourne is approximately 5 kilometres from the old site, which ensured that the

company retained key production staff. Investment at the facility was in excess of \$3.5m including a cleanroom (with approx 3 times the previous capacity), our own in-house ethylene oxide (ETO) sterilizer and warehouse storage with capacity for 800 pallets.

The decision to bring the sterilisation operation in-house was vindicated when the normally reliable sterilisation contractor was unable to service our requirements in late 2006 due to major capacity constraints. The fallout was swift, resulting in a serious backlog of orders with many of our customers. Alternative solutions were rapidly implemented including validating a smaller chamber in Sydney and validating a chamber in Malaysia. This placed additional time pressure on the business to expedite our relocation and supply chain strategy and put huge pressure on our operational and customer relationships. Normal services from our sterilisation contractor resumed in January but the damage had been done to our business. Sales were down only \$250,000 in the first half from the previous corresponding period with the fallout mostly felt in the second half.

The newly installed ETO sterilizer is a state-of-the-art chamber purpose built in the USA, and with attached plant and equipment exceeds all environmental requirements. Unfortunately, the chamber was damaged in transit, which added an extra 2-3 months to the original timeframe. At no point was the timing of the installation of ITL's in-house steriliser, which replaces the third party sterilisation services, expected to materially affect the expected financial performance of the company in FY 2006/7.

A number of major customers have recently visited the facility and expressed their confidence in ITL's ability to meet their future requirements.

Malaysia

The existing facility in Ipoh is currently nearing capacity. There is no surrounding land available for extension and a new manufacturing facility has been planned. The new facility is 12-18 months away and with the increased growth in business planned over the next period, renovations are underway to help reduce the congestion on the floor. Increased volume can be achieved in the short term with additional shifts. Hiring and training of new staff has commenced.

Our long term strategy is to increase our level of automation in the facility to improve consistency and capacity. Throughout the year new automated and semi automated machinery has been commissioned with more on order. Some new molding machines and higher cavity tooling is also planned to improve efficiencies and meet demand.

New Facility Malaysia

A contract was finalised with the Perak State Government to purchase approx 16 acres of land in Ipoh for the new home of ITL manufacturing in Asia. The size of the land will ensure ITL has adequate room for expansion into the future. Architects and engineers are nearing completion on the design of the facility and a Development Application is currently with the local government for approval. This new facility is proposed to be operational in the second half of 2008.

R&D

ITL has always invested in its product pipeline through dedicated research and development. Last financial year the company invested 9% of revenue in new product development. This year three new patents, two registered designs and one trademark have been filed on the following projects:

- TINA project
- Large animal blood collection devices
- CrocClamp™ irreversible clamp

ITL has signed a co-operation agreement with Fresenius, a world leading healthcare company, for our Transfusion Infusion Needle Assembly (TINA) project, which is funded dollar for dollar by AusIndustry under the R&D Start program. This agreement puts the first two products from this project to trial in one



of the world's top five blood-pack manufacturers and the world's largest player in dialysis. A number of other companies are also interested in these developments.

Using our expertise in human blood collection, ITL has commenced a project to simplify the current blood collection process in large animals which is used for disease, trait and bloodline tracking. These devices are currently being trialed in pigs and cattle in the US, Canada, Europe and Australia.

ITL has also developed the CrocClamp™, an irreversible blood/fluid line clamp. Demand for this product arose from regulatory changes in the US and Japan and a direct request from one of our major customers. Sales have already been made after positive trials and feedback by some of our Japanese customers.

ITL's R&D team has been working closely with the manufacturing division to improve manufacturing processes and yields in existing products through automation and improved raw material selection.

New CFO Commences

After an exhaustive selection process, Mr Greg Lewis commenced on 30 May 2007. Greg has a wealth of experience in acquisitions with Tyco and medical device experience with Stryker Medical. His expertise will be instrumental in ensuring ITL has a solid foundation for the next stage of ITL's growth.

Finance/Funding

The company has established a number of new bank facilities and completed a capital raising during the year to fund our future expansion.

A total of \$18.0 m in facilities have been established to fund land and buildings, operating requirements and special projects in Australia and Malaysia. The company also completed a placement of 15% of its shares to raise just over \$8m earmarked for acquisitions.

Australian dollar revenues now form less than 50% of total revenue. Currency movements due to the strength of the AUD continue to be of concern.

The company is now well placed to fund its future expansionary growth strategies.

Bill Mobbs
CEO

ITL (ASX: ITD, www.itl-limited.com) is a rapidly expanding and diversified company within the healthcare industry. Specialising in innovative medical devices and procedure packs for global healthcare markets, ITL manufactures in Australia and Malaysia, and has sales offices in Australia, North America, Europe and Asia.

ITL's patented medical devices have a presence in over 35 countries and protect healthcare workers in millions of procedures annually. ITL supplies its range of customised procedure packs to over 200 hospitals across Australia, and within Asia supplies procedure packs, capital equipment and instruments to over 160 hospitals.