



Delivering sustainable, organic growth
ITL business update and outlook

A message from the Managing Director

Dear Shareholders,

Following both the recent announcement of our half year financial results and the company's presentation at the AGM in November 2009, we would like to take this opportunity to provide you with a business update and to share our outlook for the year ahead.

Over the past twelve months much of our focus has been on addressing the fundamentals of the business to deal with inefficiencies, manage cost and improve the underlying performance.

During this period some difficult decisions have been taken; we also recognise that the past few years have been a trying time for shareholders and we thank you for your patience. We are pleased to report however, that the initiatives undertaken are now having a tangible, positive impact and we are progressing towards our goal of returning the company to sustainable profitability.

Our operational review encompassed all business operations, finance and management functions and has resulted in a number of improvements:

- We have strengthened the management team, bringing in a number of new people who bring excellent skills and experience and a genuine commitment to grow the business;
- We have centralised management functions which has contributed to cost savings, greater efficiency and improved processes and controls;

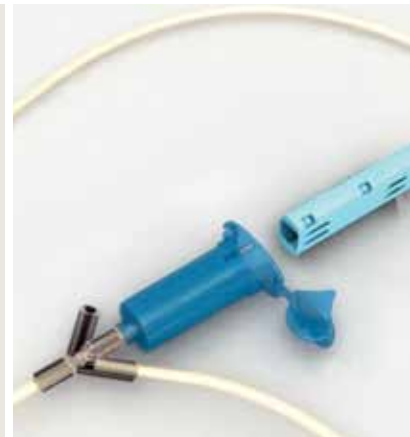
- In parallel with tighter cost management we have introduced new procurement practices and reduced our inventory which has resulted in a reduction in working capital, improved margins, significantly improved cash flow; and
- We continue to reduce long term debt which is having an immediate impact on our financial sustainability; and
- We have now turned the corner and we expect the company to be trading profitably in the last quarter of 2009/2010.

While we continue to concentrate on strengthening the business fundamentals, the progress achieved so far in this financial year means that we can now shift our focus firmly to the future and driving growth and profitability. In this update we outline our strategy for growth and where value can be created.

Finally, we recognise that, alongside the operational improvements that have been made, one of the important 'fundamentals' to be addressed was communication with our investors. Therefore, we have produced this shareholder update – which will be published on a regular basis - to provide you with a greater insight into the business and our vision and expected milestones for the remainder of 2010.

We hope you find this update of value and welcome your comments and feedback.

With best regards,
Brian Andrews
Managing Director



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Introducing the new members of our senior management team

During financial year 2009/2010, ITL strengthened its senior management team with several new appointments. Together this team is working to execute the strategic growth plan for ITL.



In November 2009 we appointed Angelo Tsagarakis to the role of Chief Financial Officer. Angelo was previously the General Manager, Finance at Melbourne IT Limited (ASX:MLB) where he was responsible for the financial management and reporting functions. Angelo has already had a tangible impact on the finance management function at ITL leading initiatives which have seen improved cash flow, debt reduction and a clean out of the balance sheet. Angelo is now continuing to implement improvements that will impact on the bottom line result. He's also passionate about best practice and transparency in financial reporting, to provide shareholders with a clearer picture of how the business is performing.

We are also pleased to announce that we have recently appointed Andrew Thompson to manage the Healthcare Australia business where he will be responsible for our Melbourne based medical procedure pack operations. Andrew, who joined the company in March 2010, has a wealth of experience in the management of high volume, competitive manufacturing operations in a range of industries including pharmaceuticals and medical devices. We expect, through his leadership and experience in lean manufacturing practices, to see a significant contribution to the growth of the Healthcare Australia business.





Focus on fundamentals: The outcomes of our operational review

At our AGM in November 2009 Brian Andrews outlined ITL's plan to address the basic operational elements of the business with a view to simultaneously reduce inventory, control expenses, reduce debt and preserve margins.

As a result, a number of improvements to operations have been made and the result is a more efficient and cost conscious business.

The initiatives outlined below have contributed to our improved financial position in the most recent financial report, and we expect will translate to further improvements to our performance in our full year financial results:

- Cash flow management has been a very high priority as we aim to improve the financial performance of the business. The introduction of tighter controls over discretionary spend, weekly reporting on debtors and creditors along with an emphasis on reducing debtor days has resulted in an increase in operating cash up to \$2.4 million for the six months to December 31 2009, as compared with \$445K for the same period in the previous half year.
- Debt reduction will also contribute directly to the bottom line. During the six months up to 31 December 2009, the company retired \$759K worth of debt utilising existing cash flows. Since then, the company has successfully disposed of its offices in Canberra as well as vacant land in Chemor, Malaysia resulting in a further \$1.2 million of debt to be retired over the balance of the 2009/2010 financial year.
- Expense control has been achieved by centralising all divisional finance and other Shared Service functions to report directly into the company's CFO, this has contributed to tighter controls over and a reduction in discretionary spend. Financial reporting has also been standardised across the group resulting in more accurate and timely information which has increased visibility into the underlying performance of each business unit and has enabled more effective operational management.

- Investing in our people and culture has been fundamental in unlocking value drivers and increasing the capacity of the business. We have strengthened the leadership team and we have also invested in developing in-house technical skills where required. A good example of this is training staff in the maintenance and operation of our sterilisation plant which has resulted in increased output, and means we now have the capability to conduct maintenance on the unit in-house delivering operational continuity and reduced operating costs.
- Our approach to new product development has been reviewed to ensure that our time and resources are being invested in projects which have the greatest potential to deliver value in the future. We have reviewed the pipeline and ceased funding of projects that have limited commercial potential. We have also introduced a new 'Stage Gate' process to ensure that low yield projects are identified and abandoned early in the development process, while projects with stronger commercial potential are advanced. We have also achieved a greater balance between focusing on the development of new products and enhancing our existing core products. Innovating within our product suite will assist in maintaining market share while broadening into new market segments thereby reducing the risks associated with a concentrated, mature portfolio.

Our focus on fundamentals has already delivered gains and strengthened the business but there are several more areas where we can make further improvements, to achieve better performance and enhance shareholder returns. We will build on the good work already done and continue our focus on fundamentals particularly in the areas of optimising IT systems, supplier management and product development. We look forward to providing you with further progress updates throughout the year.

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Our strategy for growth

The operational review (detailed in the previous section) has been largely focused internally and on addressing the underlying business fundamentals to drive improvement in performance. Now that these elements are working more effectively and our efforts have produced tangible outcomes, the priority for the Board and Management is to identify and progress opportunities for growth for each of the three business units: Innovative Products Group, Healthcare Australia and Healthcare South East Asia.

Our strategy centres on finding avenues for sustainable, organic growth in three key areas:

- Unlocking capabilities within each of the businesses to increase and create new sources of revenue;
- Expanding our market share by identifying and progressing opportunities to secure new customers in different markets or geographic areas;
- Refreshing and diversifying our product portfolio.

We are also mindful of the risks within each of the businesses and our growth strategy has been developed with these risk areas in mind.

The following provides an overview of our plans and outlook for each of ITL's business units.

Innovative Products Group

Our focus in the Innovative Products Group (IPG), which supplies blood collection safety devices, is to preserve our core products and business whilst diversifying the product base and seeking new customers and market opportunities. This is important given that we are reliant on a small, but loyal customer base who purchase products from our mature needle safety device portfolio.

Our strategy to stabilise and grow the IPG business begins with ensuring the retention of existing customers. Recently we announced that we had secured a three year extension of our contract with the American Red Cross. We are presently conducting contract renewal discussions with other major customers in the blood banking industry.

We have also moved forward to expand and refresh our product base:

- Sales of the Subculture Unit (SCU), ITL's first laboratory safety device, (launched in July 2009) are growing steadily, as is the customer base for this product which now includes the largest pathology provider in the US.
- In October 2009 we launched TEGO, a blood collection device which offers primary producers and veterinary practitioners a safe and easy method to collect blood samples from pigs and cattle. Since launch, we have introduced TEGO to a broad range of primary producers. There are many large producers currently undertaking evaluations of the product and we expect to see this translate into sales by the end of the 2009/2010 financial year. Moving into the animal market is a good example of how we can diversify our customer base, and it represents a significant opportunity: In the meat production industry, in the US alone, it is estimated that each year 4.6 million blood tests are conducted to screen for disease and a further 1.6 million blood tests are conducted for breed trait selection.
- We are also actively looking at ways to refresh our existing core product portfolio and are currently developing an update for our SampLok product, one of our flagship brands for safe blood sample collection. The concept under development has the potential to extend the lifecycle of SampLok and may also have an application in the broader pathology market, which will assist in broadening our customer base. A prototype of the new product has been developed and will now be taken to customers to gain their feedback for input into the next phase of development.

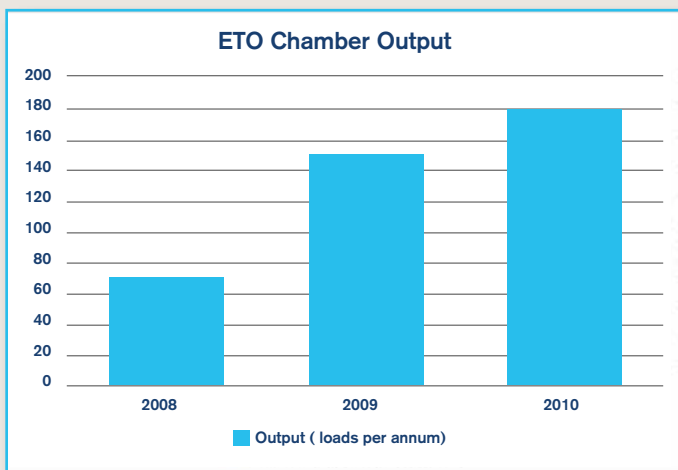


Healthcare Australia

In the first half of FY2010 the Healthcare Australia business recorded a revenue growth of 8.5 percent, the first growth in revenue after several years of decline. Sales growth has come from the sale of both single sterile products and medical procedure packs. Achieving operational efficiency is the key to generating sustainable profitability for this business unit and we will continue to focus on this.

We've already been able to realise capacity gains by looking at how we can operate key infrastructure more effectively, in particular our Ethylene Oxide Steriliser (ETO). Previously this sterilisation chamber had not been operating at capacity and frequent breakdowns were a drain on cost and resources.

This financial year we invested in creating and implementing a preventative maintenance program for the ETO chamber. In January 2010, assisted by the manufacturer we conducted a complete system audit and trained staff on system maintenance. This has enabled us to increase the output of the sterilisation unit by 52 per cent.



We've also been successful in maximising the production output in our clean room used for procedure pack assembly. In 2008 this assembly area was producing on average 25,000 procedure packs per month. Year to date including the traditionally slow month of January the same facility is producing an average of more than 45,000 packs per month. March output was a significant 53,707 packs and this 100 per cent increase in production output has been achieved with only a 33 per cent increase in assembly labour.

Looking forward we expect the recent appointment of a General Manager for this business unit, Andrew Thompson, who brings specific experience in lean manufacturing practices, will help us to achieve even lower operating costs and hence higher margins in this competitive growth industry, which will have a further and significant impact on financial performance.

Healthcare South East Asia

The Healthcare South East Asia business operates as a distributor of medical devices throughout Malaysia. This business continues to achieve strong sales growth however attaining financial sustainability objectives will principally be achieved through improved inventory management and cost control. Our efforts over the past six months have resulted in significant gains in this area and the business is now self funding. We are now focused on opportunities for growth and are actively investigating new agency opportunities.

A key component of our strategy for Healthcare South East Asia is to expand through consolidation. Healthcare South East Asia has four business units: orthopaedics, medical imaging, surgical care and critical care; each unit has a distinct target audience. We have taken steps to move away from the distribution of products that do not fit with the parameters of each unit. Instead we are building a complementary portfolio of products that will create new sales opportunities with existing customers maximising sales force productivity.



A snapshot of ITL's three business areas



Innovative Products Group

- **Core products:** Blood collection safety devices
- **Primary target market:** Blood banking industry
- **Challenge:** US focused, impacted by currency fluctuation and contraction of corporate sector blood drives
- **Opportunities:** Expand and refresh product portfolio, expand into new geographic markets and customer segments



Healthcare Australia

- **Core products:** Medical procedure packs and single sterile gowns and drapes
- **Primary target market:** Public and private hospitals
- **Challenge:** Maximising operational efficiency
- **Opportunities:** Lean manufacturing practices, increasing margins and creating opportunities to deliver new services for customers



Healthcare South East Asia

- **Core products:** Orthopaedics, medical imaging, surgical care and critical care
- **Primary target market:** Public and private hospitals
- **Challenge:** Inventory and supplier management
- **Opportunities:** Consolidation of distribution agencies and the realisation of complementary portfolios with exclusive distribution rights



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