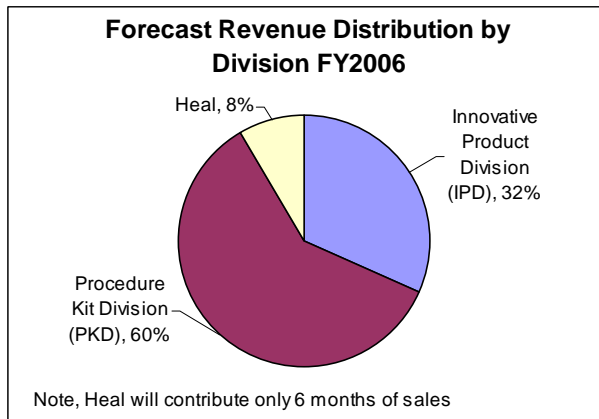
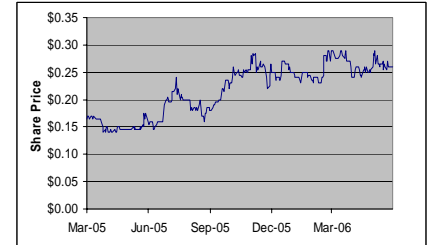


Key Points & Analysis

- The Company is on target for a FY2006 EBITDA of between \$3.5 and \$4M and is likely to realise the upper end of this range. The EBITDA for the Dec 2005 half was up 227% to \$1.8M. This result could have been exceeded had the Company not missed out on \$0.6M of sales in the Dec half due to a key end user undergoing a restructure of its warehousing facility.
- Revenue for FY2006 is expected to reach \$30M.



- PKD reported strong performance in the half year to Dec 2005 with revenue growing at 21% to \$9M. This reflects a growing trend for hospitals to move away from re-usable drapes, gowns and equipment to disposable kits. The disposable equipment market is still lightly penetrated at 7.5% (versus 26% for disposable drapes and gowns) and the likely future trend is for this to increase due to infection control issues and improving operating room efficiency.
- The IPD division recorded a revenue figure for the half year to Dec 2005 of \$4.1M, growing at 6%.



Capital Details	
Share price	\$0.26
Issued shares M	101.314
In-money options	3.55
Diluted capitalisation \$M	27.3
Net cash \$M	1.0
Enterprise valuation	26.3

Key Activities

The Company's Innovative Products Division (IPD) develops safety devices that address infection control issues in the healthcare industry. These products are manufactured in Malaysia and are distributed to 35 countries in the Americas, Europe and Asia.

The Procedure Kits Division (PKD) provides customised packs for various surgical procedures. The manufacturing facility for this division is located in Melbourne and products are supplied to the Australian market.

The acquisition of Heal in Jan 2006, a specialist marketer and distributor of surgical and medical products in Malaysia, is a strategic initiative to enhance ITL's product presence into Asia.

Key Investment Arithmetic

Year to June:	2004A*	2005A	2006F	2007F
Gross revenue	21.7	24.2	30.0	36.0
EBITDA	3.1	2.8	4.0	5.4
EBITDA margin	14.3%	11.4%	13.3%	15.0%
Reported Net Profit	-0.8	0.1	2.4	3.3
EPS \$	-0.008	0.001	0.023	0.033
PER	na	na	11.5	7.9
EV/EBITDA	8.5	9.6	6.6	4.9
Dividend	0.000	0.000	0.010	0.015
Yield	0.0%	0.0%	3.8%	5.8%
Franking factor	na	na	100%	100%

* pro forma for 12 months of Surgicare

**Prepared by Kate Lyndon
Telephone: (02) 9276 1103**

- ITL has been successful in growing revenue and increasing margins. Strategies to improve margins include enhancing internal efficiencies, reducing procurement costs, increasing the manufacture of its own kit components and maintaining its focus on developing its IP.
- Heal Marketing Sdn Bhd, a Malaysian company that markets surgical and critical care products was acquired in Jan 2006 for up to \$2.4M. Profit generated by Heal in FY2006 is on track to meet its target so ITL expects to pay the maximum consideration. The purchase of Heal was immediately earnings accretive to ITL.
- ITL plans to leverage off Heal's concentrated distribution network in South East Asia to expand its product markets.
- In May 2006, ITL was successful in attaining a \$6M contract to supply medical equipment to the new Prince Court Medical Centre in Malaysia.
- PKD's largest component of sales is derived from the operating room kits segment (ranked second largest player) and is a market leader in segments such as invasive blood pressure monitoring kits and catheterisation laboratory kits.
- ITL has a strong R&D platform with a portfolio of 15 patented products which generate on average a gross profit margin of 60%. Two new TINA (Transfusion Infusion Needle Assembly) products are expected to be launched during the Jun 2007 half. The first, a new safety retractable needle for the whole blood collection market which is an upgrade on ITL's key product, DonorCare. This will be sold predominately to the developed countries, whilst the target market for the DonorCare product will be to the developing countries. The demand for these products is in excess of 100M blood collections per year, half of which will come from the developed world. The second product is a new safety retractable AV fistula needle required for patients undergoing dialysis, with a global demand of approx 240M dialysis needles per year.
- Other TINA products under development include butterfly needles (small diameter needles for blood collection) and huber needles (right angle needles for inserting cytotoxic drugs into patients requiring chemotherapy), which will commence clinical trials in early calendar 2007 and will be launched in the latter half of 2007. Again, their market potential is significant.
- It's quite probable that the Company will announce a 1c dividend in FY2006. The Company has accrued \$4.8M of franking credits.
- The Company believes that it will generate 20% revenue growth next year and expects that this growth will be sustained over the next few years. Within the next 4 to 5 years, the Company's target revenue is \$100M, of which approx \$60M will come from organic growth (based on the growth trajectory provided) and the balance from acquisitive activity.

Conclusions

The Company continues to focus on improving margins and expanding distribution channels to enhance bottom line performance. The acquisition of Heal in Jan 2006 has proven beneficial, with a \$6M supply contract in Malaysia.

Important Disclaimer – This may affect your legal rights: Because this document has been prepared without consideration of any specific persons financial situation, particular needs and investment objectives, an InterFinancial financial services licensee or investment adviser should be consulted before any investment decision is made. While this document is based on information from sources which are considered reliable, InterFinancial, its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does InterFinancial accept any responsibility to inform you of any matter that subsequently comes to notice, which may affect any of the information contained in this document. This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of InterFinancial. This report does not constitute advice to any person.