Medical
Developments
International

February 23rd, 2006

HALF-YEAR REPORT

Pursuant to listing rule 4.2A, please find following Medical Developments International's Half-Year Report and associated results announcement, which should be read in conjunction with the most recent annual financial report.

Jeremy Payling
Company Secretary

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Results For Announcement To The Market

The following information is provided in accordance with ASX Listing Rule 4.2C.3

		Percentage Change		Amount $'000
Revenue from ordinary activities	Up	12.2%	to	3,197
Profit after tax attributable to members	Up	33.8%	to	376
Net Profit after tax attributable to members	Up	33.8%	to	376

No interim dividend per ordinary share has been declared (half-year ended 31 December 2004: no interim dividend declared).

There is no Dividend Reinvestment Plan currently in operation.

Net tangible asset backing per ordinary share at 31 December 2005 was 2.9 cents (31 December 2004: 2.3 cents)

Brief explanation of the figures above
Refer to the review of operations following, and note 5 to the accounts which details the impact of A-IFRS.

Review Of Operations

- **Net Profit Up**
- **Business Building in Penthrox and Devices**
- **New markets signed and more are prospective**
- **Rigorous testing and registration process on track for Penthrox**

Dr. Simon Fisher the CEO of MVP today announced the company's half yearly results for the six months ended 31 December 2005.

Financial Highlights

Revenue $3,197,000 up 12%
Profit after tax $ 376,000 up 34%

During the period, MVP invested nearly $670,000 in marketing and product registrations. This is consistent with the dual strategy of:

1. marketing products, particularly Penthrox® in new therapeutic areas in countries where registration exists; and
2. developing and implementing a rigorous strategy for development programs to gain registration for our products in other countries.

Penthrox®

Countries Where Registration is Current

MVP is currently able to market Penthrox® in Australia, New Zealand, New Guinea and the Pacific Islands.

Australia
The pre hospital analgesia market continues to grow slowly and steadily as reflected in sales to State ambulance services and in the Defence Forces.
The sales focus this financial period has been on new therapeutic areas where there is a medical need for potent short duration analgesia. Therapeutic areas of particular *a priori* relevance to Penthrox and where we have preliminary sales or have formal or informal trials underway, or are developing a market entry strategy are:

Dentistry
A strong launch into Dentistry in late 2005 saw the product pipeline fill. Early adopters have embraced Penthrox as filling a large need. Some of the profession are awaiting further data on Penthrox in the dental setting. MVP is generating that data currently which positions the product in 3 major settings:

a. Initial examination in emergency or painful clinical situations
b. Pre-Local anaesthesia
c. Uncomfortable procedures where analgesia is generally not used or where no appropriate analgesia is available.

Plastic and Cosmetic Surgery
Initial market research and data collection suggests that there is a significant medical need for the type of analgesia offered by Penthrox® in this growing area of medicine.

Obstetrics
The process of labour may take a significant number of hours and require a different form of analgesia, but there are events during labour where pain spikes can occur and Penthrox® is appropriate.

Interventional Radiology
Many uncomfortable procedures are undertaken aided by visualisation techniques such as ultrasound, CT scan and MRI. These short, painful procedures require potent analgesia of short duration.

Burns Dressings
The treatment of burns involves the changing of dressings on a regular basis. This usually requires analgesia and often narcotics.

Palliative Care
After a positive result in a pilot study, a major study is being undertaken to examine the safety and efficacy of Penthrox in cancer patients experiencing pain associated with activities of daily living.

Procedure related pain
A pivotal study will be undertaken to comprehensively demonstrate the properties of Penthrox in patients undergoing bone marrow biopsy. This study will be presented to the FDA prior to July this year to form the foundation of the application for registration in the US. (See further below)

Neurology
For use in severe migraines

General Practice

For inclusion in Doctors emergency bags

Research Sales

MVP has resumed sales into the research community after satisfying Regulatory in the US late last year. Research sales are back to their previous levels and the company is now receiving new enquiries from leading research institutions.

Veterinary Analgesia

MVP has initiated discussion with a veterinary partner with regards to investigation of the application of Penthrox in veterinary medicine.

New Zealand

MVP is in discussion with a leading player in the pre hospital market in New Zealand to represent Penthrox and oxygen equipment. MVP is working towards the adoption of Penthrox by the New Zealand ambulance services (see further below). Penthrox is being launched into Dentistry in March 2006.

New Guinea and the Pacific Islands

Progress is continuing to be made with regards to the introduction of Penthrox into the emergency services in these countries.

Countries Where Registration is Pending

There has been slower than anticipated registration of Penthrox in some countries, partly due to the United States FDA posting a notice on their website in late 2005. The notice referred to the kidney toxicity of methoxyflurane when administered as an anaesthetic. However, the notice did not differentiate methoxyflurane anaesthesia from methoxyflurane analgesia. In over 2 million doses, these toxicities have never been reported when methoxyflurane is used for analgesia.

The notice has prompted some regulatory agencies considering our product registration to ask for information related to the safety of methoxyflurane in analgesic doses. The data is available and has been examined by MVP. Submissions have been made to relevant Regulatory Authorities in Australia and internationally. MVP are confident that the confusion surrounding anaesthetic doses and analgesic doses can be explained and regulatory submissions will continue and be back on track.

Gulf Cooperation Council States (GCC)
(Saudi Arabia, Kuwait, UAE, Oman, Qatar, Bahrain)

The GCC Drug Registration Committee considered the Penthrox Dossier in December 2005 and have asked MVP to respond to questions relating to the dossier. The submission of the responses is complete. MVP awaits notice of when the re-submission will be considered.

Singapore

The Singapore Regulatory Authority requested documentation from the Australian Drug Evaluation Committee, a body that was initiated after the initial registration of Penthrox. MVP is working with the TGA to develop the documentation.

Pakistan

The registration is still under consideration in Pakistan. MVP has not been asked any further questions regarding the dossier and its contents.

Countries Where Australian Registration May Carry Mutual Recognition or Literature Based Submissions May Be Accepted

South East Asia
(Indonesia, Thailand, Malaysia, Hong Kong and the Philippines)
MVP has retained a prominent Regulatory Consultancy firm to undertake a regulatory review of this region with a view to submit the registration dossier to countries who accept Therapeutic Goods Administration and Medsafe registration (NZ) plus the current dossier of evidence for Penthrox.

Russia, Turkey, Chile and South Africa
MVP is actively considering ways to enter each of these markets.

The FDA and Countries Which Require Further Data

MVP is undertaking a development plan that, when complete will satisfy the requirements for submission to the FDA. This plan includes conducting bench top, preclinical and clinical studies to complete the requirements of a new drug application in the US. MVP has requested a meeting with the FDA for May 2006 to examine the plan and study strategy. At this meeting, new data will be presented and a proposal to begin the clinical studies will be presented to the FDA.

In vitro preclinical studies
MVP is conducting experimental testing of the properties of methoxyflurane. This is in direct response to a request from the FDA which arose at the meeting held in December 2004. Although preliminary, there are no current signs of negative results from these tests.

In vivo preclinical studies
MVP is carrying out 2 in vivo pre-clinical studies which will address all issues raised by the FDA at the December 2004 meeting. The results of these studies will add to the understanding of the metabolic pathway and toxic levels of methoxyflurane.
The levels at which analgesia is achieved are well established. The FDA requires data on the effects of methoxyflurane at concentrations which are multiples of the efficacious levels.

Clinical Studies
MVP will conduct one clinical study to satisfy FDA needs. Although the results of the previous studies conducted are valid, they no longer satisfy FDA criteria. Therefore, MVP will conduct one major bridging study, to be designed and implemented to current FDA standards. This study will establish the validity of the large body of previous clinical work done with Penthrox for analgesia and will be the major clinical data set upon which Penthrox will be registered in the US.
MVP will also conduct a number of "supportive" studies, which will confirm the bridging study and form the basis of entry and commercialisation in other markets.

Medical Devices

Sales of medical equipment for this half year were ahead of last year and on target to exceed internal budget figures. Advances within this division are constrained by resources and, given the potential of this area, MVP have taken steps to employ a person dedicated to marketing and sales of devices and veterinary products.

Asthma Products
In Australia, MVP is positioned to maximise the opportunity presenting in the coming colder months. Combined with unique products and competitive pricing, MVP have obtained a significant position in most major pharmacy chains in preparation for the upcoming "asthma season". The company maintains its leadership position and sole subsidised product status on the New Zealand PHARMAC list of subsidised products.

We are also pleased to announce the finalisation and signing of a distribution agreement with Clement-Clarke, one of the significant players in asthma, hospital and pharmacy in the UK. This agreement has seen the first sales of asthma devices into the UK. Asthma is a significant medical problem in these areas and MVP's devices meet a specific medical need.

A strategy for US market entry has been developed and will be implemented in the medium term.

Oxygen Equipment
In Australia, wherever clinicians use local anaesthetic, the TGA approved Product Information sheets include a statement to the effect that resuscitation equipment must be present. Despite this, a significant percentage of doctor's and dentist's surgeries do not have access to oxygen. Through our dental distributor, Henry Schein Regional, MVP has started marketing its oxygen equipment to the dental market for the first time. The results have been encouraging and a specific marketing and sales plan to dentists and doctors is being developed.

A new partnership in New Zealand with a leading distributor is expected soon, which gives MVP a local presence with a large supplier of equipment to the ambulance service and the fire brigades.

Initiatives to sign further international distributors for medical equipment are on track.

Veterinary Equipment
Sales continue to budget. Marketing effort in this area will be significantly increased with the plan to employ a dedicated person to this and the devices area.

New Product Pipeline

MVP has developed an early to late product pipeline that will ensure future growth. The Company has an exciting prospect with the near term launch of a biopsy punch which has been in development for more than two years.

Dividend

The Directors have determined not to pay a dividend in respect of the period ended 31 December 2005. Cash will be used to fund additional international registrations and marketing.

Further Information:

Mr. David Williams	Dr. Simon Fisher
Chairman	Chief Executive Officer
0414 383 593	03 9547 1888

Half-Year Report (Appendix 4D)

Financial Half-Year Ended 31 December 2005

(Previous corresponding period: half-year ended 31 December 2004)

Half-Year Report for the Half-Year Ended 31 December 2005

Contents

Directors' Report

The directors of Medical Developments International Limited ("MDI") herewith submit the financial report for the half-year ended 31 December 2005.

The names of the directors of the company during or since the end of the half year are:

Mr D J Williams (Chairman)
Dr A Coulepis
Mr I M C Kirkwood
Mr A D McCallum
Mr M Van Ryn
Mr C J Weaver

The above named directors held office during and since the end of the half-year except for:
Dr A Coulepis – appointed 14 July 2005
Mr C J Weaver – resigned 15 July 2005

Review of Operations

Dr Simon Fisher was appointed Chief Executive Officer on 30 September 2005.

A detailed review of the operations of the company during the half-year and the results of these operations is set out in the accompanying results announcement.

Auditors' Declaration of Independence

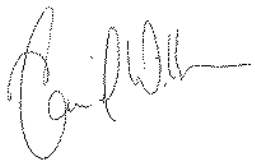
The auditors' independence declaration under s.307C in relation to the review is included on page 4.

Rounding Off of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors.



David Williams
Chairman
Melbourne, 23 February, 2006

Deloitte.

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The Board of Directors

Medical Developments International Limited
Factory 7
56 Smith Road
SPRINGVALE VIC 3171

Dear Board Members

Medical Developments International Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Medical Developments International Limited ("MDI").

As lead audit partner for the review of the financial statements of MDI for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

C Biermann
Partner
Chartered Accountants

Melbourne, 23 February 2006

Deloitte.

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Independent review report to the members of Medical Developments International Limited

Scope

The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, selected explanatory notes and the directors' declaration for Medical Developments International Limited for the half-year ended 31 December 2005 as set out on pages 6 to 20.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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.

Review Approach
We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medical Developments International Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

C Biermann
Partner
Chartered Accountants

Melbourne, 23 February 2006

Member of
Deloitte Touche Tohmatsu

Directors' Declaration

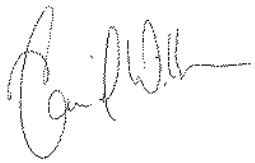
The directors declare that:

a) 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; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



David Williams
Chairman
Melbourne, 23 February, 2006

Income Statement for the Half-Year Ended 31 December 2005

	Half-year ended 31 Dec 2005 $'000	Half-year ended 31 Dec 2004 $'000
Revenue from sale of goods	3,184	2,814
Cost of sales	(1,062)	(968)
Gross Profit	2,122	1,846
Other income	13	36
Distribution expenses	(84)	(75)
Marketing expenses	(370)	(319)
Occupancy expenses	(81)	(61)
Administration expenses	(537)	(621)
Regulatory and registration expenses	(270)	(195)
Other expenses	(172)	(132)
Finance costs	(84)	(94)
Profit before income tax expense	537	385
Income tax expense	(161)	(104)
Profit for the period	376	281
Profit attributable to members of the parent entity	376	281
Earnings per Share:		
Basic (cents per share)	0.7	0.5
Diluted (cents per share)	0.7	0.5

Notes to the financial statements are included on pages 11-20

Balance Sheet as at 31 December 2005

	31 Dec 2005 $'000	30 Jun 2005 $'000
Current Assets		
Cash and cash equivalents	290	542
Trade and other receivables	584	678
Inventories	1,607	1,439
Other	181	176
Total Current Assets	2,662	2,835
Non-Current Assets		
Plant and equipment	1,346	1,434
Goodwill	7,368	7,368
Other intangible assets	280	237
Deferred tax assets	170	209
Total Non-Current Assets	9,164	9,248
Total Assets	11,826	12,083
Current Liabilities		
Trade and other payables	316	289
Provisions	45	35
Borrowings	61	544
Current tax liabilities	27	201
Other	38	54
Total Current Liabilities	487	1,123
Non-Current Liabilities		
Provisions	35	32
Borrowings	2,000	2,000
Total Non-Current Liabilities	2,035	2,032
Total Liabilities	2,522	3,155
Net Assets	9,304	8,928
Equity		
Issued capital	8,092	8,092
Retained earnings	1,212	836
Total Equity	9,304	8,928

Notes to the financial statements are included on pages 11-20

Statement of Changes in Equity for the Half-Year Ended 31 December 2005

	Half-year ended 31 Dec 2005			Half-year ended 31 Dec 2004		
	Issued capital $'000	Retained earnings $'000	Total $'000	Issued capital $'000	Retained earnings $'000	Total $'000
Opening balance	8,092	836	8,928	8,092	481	8,573
Profit for the period	-	376	376	-	281	281
Dividends provided for or paid	-	-	-	-	(142)	(142)
Closing balance	8,092	1,212	9,304	8,092	620	8,712

Notes to the financial statements are included on pages 11-20

Cash Flow Statement for the Half-Year Ended 31 December 2005

	Half-year ended 31 Dec 2005 $'000 Inflows (Outflows)	Half-year ended 31 Dec 2004 $'000 Inflows (Outflows)
Cash flows from operating activities		
Receipts from customers	3,289	2,924
Payments to suppliers and employees	(2,643)	(2,810)
Interest and other costs of finance paid	(124)	(131)
Income tax paid	(293)	-
Interest received	9	33
Net cash provided by/(used in) operating activities	238	16
Cash flows from investing activities		
Payments for deferred registration costs	(31)	(173)
Payments for plant and equipment	(34)	(169)
Net cash used in investing activities	(65)	(342)
Cash flows from financing activities		
Proceeds from borrowings	74	-
Repayment of borrowings	(500)	(1,000)
Net cash used in financing activities	(426)	(1,000)
Net decrease in cash held	(253)	(1,326)
Cash at the beginning of the half-year	542	1,701
Effects of exchange rate changes on the balance of cash held in foreign currencies	1	(8)
Cash at the end of half-year	290	367

Notes to the financial statements are included on pages 11-20

Notes to the Financial Statements for the Half-Year Ended 31 December 2005

1. Basis of preparation

This half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the 2005 annual financial report.

The company changed its accounting policies on 1 July 2005 to comply with Australian Equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's financial position, financial performance and cash flows is discussed in note 5.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004, the company's date of transition, except for the accounting policies in respect of financial instruments. The company has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is not significant.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the half-year financial report:

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of annual leave and long service leave which are not expected to be settled within 12 months are measured using an estimate of the present value of the future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(c) Financial assets
Loans and receivables
Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(d) Financial instruments issued by the company
Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which they relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and would not have been incurred had those instruments not been issued.

Interest and dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

(e) Foreign currency
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

(f) Goods and services tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(g) Goodwill
Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is recognised as an asset and not amortised but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Refer also to note 1(h).

(h) Impairment of assets
At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the

impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities

and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(j) Intangible assets
Patents, trademarks and licenses
Patents, trademarks and licenses are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives of 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Research and development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their estimated useful life of 5 years.

Deferred registration costs
Items of expenditure on registrations are deferred to the extent that such costs can be measured reliably, future economic benefits are attributable to the expenditure, and it is probable that such future economic benefits will eventuate.

Any deferred registration costs are amortised over a period of 5 years in which the corresponding benefits are expected to arise, commencing from commercial sales to any of the countries for which the registration costs contributed to a successful registration.

The unamortised balance of registration costs deferred in previous periods is reviewed regularly at each reporting date, to ensure the criteria for deferral continue to be met. Where such costs are no longer recoverable, they are written off as an expense in net profit or loss.

(k) Inventories
Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(l) Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Payables
Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Plant and equipment
Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of the acquisition.

Depreciation
Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	5 years
Plant and equipment	4 -10 years

(o) Provisions
Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

Dividends
A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors on or before the reporting date.

(p) Revenue recognition
Sale of goods
Revenue from the sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods and assets.

Interest revenue
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(q) Share based payments
Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black-Scholes options valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

2. Subsequent events

There has not been any matter or circumstance that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future years.

3. Dividends

	Half-year ended 31 Dec 2005		Half-year ended 31 Dec 2004	
	cents per share	$'000	cents per share	$'000
Recognised amounts				
Fully paid ordinary shares				
Final dividend paid in respect of 2004 financial year	-	-	0.25	142
		-		142

4. Segment information

Products and services within each business segment
For management purposes, the company is organised into three business units – pharmaceuticals, medical devices and veterinary products. These units are the basis on which the company reports its primary segment information. The principal products and services of each of these divisions are as follows:

- Pharmaceuticals – the sale of Penthrox, primarily within Australia and New Zealand, but with some sales in Europe, North America and the Middle East
- Medical Devices – the sale of medical devices, particularly the Space Chamber™ and Breath-Alert™ Peak-Flow meters, primarily within Australia and New Zealand, but with some sales in Asia, Europe and North America
- Veterinary Products – the sale of veterinary devices within Australia and Europe

Segment revenues and results

	Pharmaceuticals		Medical Equipment		Veterinary Equipment		Unallocated		Total	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Revenues:										
External sales	1,822	1,498	1,144	1,102	218	214			3,184	2,814
Total revenue									3,184	2,814
Results:										
Segment results	608	505	282	273	76	64			966	842
Unallocated							(429)	(457)	(429)	(457)
Profit before income tax expense									537	385
Income tax expense									(161)	(104)
Net profit									376	281

5. Impact of adopting Australian equivalents of IFRS

The company changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", with 1 July 2004 as the date of transition, with the exception of financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer note 1).

An explanation of how the transition from superseded policies to A-IFRS has affected the company's financial position and financial performance is set out in the following tables and notes that accompany the tables. There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Effect of A-IFRS on the income statement for the half-year ended 31 December 2004 and the financial year ended 30 June 2005

		Half-year ended 31 December 2004			Financial year ended 30 June 2005		
	Note	Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Revenue from sale of goods		2,814	-	2,814	5,404	-	5,404
Cost of sales		(968)	-	(968)	(1,926)	-	(1,926)
Gross Profit		1,846	-	1,846	3,478	-	3,478
Other income		36	-	36	45	-	45
Distribution expenses		(75)	-	(75)	(144)	-	(144)
Marketing expenses		(319)	-	(319)	(528)	-	(528)
Occupancy expenses		(61)	-	(61)	(125)	-	(125)
Administration expenses	(a)	(810)	189	(621)	(1,406)	379	(1,027)
Regulatory and registration expenses		(195)	-	(195)	(555)	-	(555)
Other expenses		(132)	-	(132)	(231)	-	(231)
Finance costs		(94)	-	(94)	(176)	-	(176)
Profit before income tax expense		196	189	385	358	379	737
Income tax expense	(b)	(79)	(25)	(104)	(190)	(50)	(240)
Profit for the period		117	164	281	168	329	497
Profit attributable to members of the parent entity		117	164	281	168	329	497

Effect of A-IFRS on the balance sheet at 1 July 2004, 31 December 2004 and 30 June 2005

		1 July 2004		
	Note	Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current Assets				
Cash and cash equivalents		1,701	-	1,701
Trade and other receivables		667	-	667
Inventories		1,222	-	1,222
Other		155	-	155
Total Current Assets		3,745	-	3,745
Non-Current Assets				
Plant and equipment		1,309	-	1,309
Goodwill	(a)	7,368	-	7,368
Other intangible assets		-	-	-
Deferred tax assets	(b)	50	199	249
Total Non-Current Assets		8,727	199	8,926
Total Assets		12,472	199	12,671
Current Liabilities				
Trade and other payables		239	-	239
Provisions		38	-	38
Borrowings		1,500	-	1,500
Current tax liabilities		237	-	237
Other		52	-	52
Total Current Liabilities		2,066	-	2,066
Non-Current Liabilities				
Provisions		30		30
Borrowings		1,500	-	1,500
Deferred tax liabilities		2	-	2
Other		500	-	500
Total Non-Current Liabilities		2,032	-	2,032
Total Liabilities		4,098	-	4,098
Net Assets		8,374	199	8,573
Equity				
Issued capital	(b)	7,893	199	8,092
Retained earnings	(c)	481		481
Total Equity		8,374	199	8,573

	Note	31 December 2004 Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	30 June 2005 Superseded policies $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current Assets							
Cash and cash equivalents		367	-	367	542	-	542
Trade and other receivables		674	-	674	678	-	678
Inventories		1,550	-	1,550	1,439	-	1,439
Other		257	-	257	176	-	176
Total Current Assets		2,848	-	2,848	2,835	-	2,835
Non-Current Assets							
Plant and equipment		1,369	-	1,369	1,434	-	1,434
Goodwill	(a)	7,179	189	7,368	6,989	379	7,368
Other intangible assets		173	-	173	237	-	237
Deferred tax assets	(b)	46	174	220	60	149	209
Total Non-Current Assets		8,767	363	9,130	8,720	528	9,248
Total Assets		11,615	363	11,978	11,555	528	12,083
Current Liabilities							
Trade and other payables		189	-	189	289	-	289
Provisions		35	-	35	35	-	35
Borrowings		500	-	500	544	-	544
Current tax liabilities		310	-	310	201	-	201
Other		208	-	208	54	-	54
Total Current Liabilities		1,242	-	1,242	1,123	-	1,123
Non-Current Liabilities							
Provisions		20		20	32		32
Borrowings		2,000	-	2,000	2,000	-	2,000
Deferred tax liabilities		4	-	4	-	-	-
Other		-	-	-	-	-	-
Total Non-Current Liabilities		2,024	-	2,024	2,032	-	2,032
Total Liabilities		3,266	-	3,266	3,155	-	3,155
Net Assets		8,349	363	8,712	8,400	528	8,928
Equity							
Issued capital	(b)	7,893	199	8,092	7,893	199	8,092
Retained earnings	(c)	456	164	620	507	329	836
Total Equity		8,349	363	8,712	8,400	528	8,928

Notes to the reconciliations of income and equity

(a) Goodwill

The company has elected not to restate business combinations that occurred prior to the date of transition to A-IFRS, and accordingly, the carrying amount of goodwill at the date of transition has not changed. However, goodwill, which was amortised under superseded policies, is not amortised under A-IFRS from the date of transition. The effect of the change is an increase in the carrying amount of goodwill and an increase in the net profit before tax for the half-year ended 31 December 2004 and the financial year ended 30 June 2005. There is no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill for which amortisation is not deductible for tax purposes.

(b) Income tax

Under superseded policies, the company adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting, were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from the differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

The effect of the above changes is to increase the deferred tax assets at 1 July 2004, 31 December 2004 and 30 June 2005 by $199 thousand, $174 thousand and $149 thousand respectively. This adjustment relates to

the recognition of a temporary difference for IPO costs that is deductible for tax purposes over 5 years. The other side of this entry has been recognised in issued capital. The effect on profit for the half-year ended 31 December 2004 and financial year ended 30 June 2005 is a reduction of $25 thousand and $50 thousand respectively.

(c) Retained earnings

The net effect of the above changes is as follows:

		1 Jul 2004 $'000	31 Dec 2004 $'000	30 June 2005 $'000
Goodwill no longer amortised	(a)	-	189	379
Adjustment to tax balances	(b)	-	(25)	(50)
Total adjustment to retained earnings		-	164	329

(d) Share-based payments

Share-based payments were examined as part of the implementation of A-IFRS. Share-based payments granted after 7 November 2002 and not vested before 1 January 2005 are required to be expensed under A-IFRS. As a result of the recognition criteria and 'true-up' process required under A-IFRS, there are no financial adjustments required to the financial statements at 1 July 2004, 31 December 2004 and 30 June 2005.