OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2005

Previous corresponding period : Half year ended 31 December 2004

This half year report is to be read in conjunction with the company's 2005 annual report

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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2005 are as follows:

Results

- Revenues from ordinary activities up 27% to $1,888,484.
- Loss from ordinary activities after tax attributable to members down 14% to $2,226,595.
- Net loss after tax attributable to members down 14% to $2,226,595.

Dividends

No dividends have been paid or declared by the entity since the beginning of the reporting period. No dividends were paid or declared in the previous corresponding period.

2. Brief explanation of results

Operating revenue for the half year was $1,888,484, which was up 27% on the previous corresponding period. Sales revenues were lower as the 2004 period included shipment of a number of units for the Pentax clinical trial program. This year, sales to Pentax are exhibition units and final product for market release, but the quantities shipped in the period to December 2005 were less than those shipped for the international clinical trial program last year.

Most sales in the current year will occur early in the second half of the year, in preparation for product release by Pentax.

Other revenues, comprising interest received, grants and royalties amounted to $1,319,118 in the current half-year, compared to $551,136 last year, and increase of $767,982. Most of the increase was in royalties received, which was up $665,663.

The gross margin on sales was $0.161M, and expenses increased 8% to $3.612M. Research and Development continued to be the largest single expense item, amounting to $1.59M, or 44% of expenses.

The net loss before tax was $2,131,945. After allowing for income tax, (which represents the write off of withholding tax deductions amounting to $94,650), the net loss for the half year is $2,226,595, which is an improvement of 14% on the loss for the previous corresponding period ($2,599,582).

3. Commentary on result

The Review of Operations on pages 5 to 7 of this report is to be read as forming part of this Report.

4. Other information to be included in Appendix 4D

Net Tangible Assets per ordinary Security
Net tangible assets per ordinary security at 31 December 2005 amount to $0.10 (2004, $0.13).

Subsidiaries, associates and joint ventures
There were no changes in subsidiaries, associates and joint ventures during the year.

Status of audit of accounts
This Appendix 4D is based on accounts which have been subject to audit review.

5. Financial information

Financial information is set out on pages 10 to 21 of this report.

Bruce Andrew
Company Secretary

9 March 2006

Optiscan Imaging Limited and Controlled Entities

A.C.N. 077 771 987

Financial Report for the half year ended

31 December 2005

Optiscan Imaging Limited

A.C.N. 077 771 987

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half-year ended 31 December 2005.

Directors

The names and details of the directors in office during or since the end of the half-year are:

Grant Latta, Non-executive Director, Chairman
Matthew Barnett, Managing Director
Keith Daniel, Non-executive Director
Peter Delaney, Executive Director, Director of Technology
Antony Rogers, Non-executive Director

All directors held their position as a director throughout the half-year and up to the date of this report.

Review of Operations

The key achievements of the company during the half-year under review were:

- Completion of pre-production orders and commencement of supply of final product for Pentax to finalise transfer to full scale manufacture
- Streamlining and expansion of production activity in line with forecast requirements
- Announcement of new FIVE 1 research instrument targeted at the drug discovery market and set for release in 1H 2006.
- Clinical flexible endo-microscope trial program continuing to generate strong endorsement of the medical utility of Optiscan's unique technology
- Commencement of rigid endo-microscope pilot clinical trial activity.
- Increased progress with Optiscan's instrument development pipeline

During the half year, the primary focus of the company has been to put in place all of the arrangements necessary to support Pentax in the transfer to full-scale production of the ISC1000 flexible endo-microscope. This is due for completion early in 2006. Only modest levels of product delivery to Pentax have been required during this process.

Simultaneously, we have continued to advance our plans to commercialise the two other core product opportunities that exist in rigid endo-microscopy and in pre-clinical research instruments.

We have also made progress on our future product pipeline as identified at the last AGM.

Result for the half-year

The result for the half-year ended 31 December 2005 is a loss of $2.227 million. This is in line with expectations and compares to a loss of $2.599M for the previous corresponding period.

Revenue for the half year was $1.888M, up 27% on $1.486M for the previous corresponding period. This increase was largely due to higher royalty receipts following Japanese and European patent extensions granted in 2004/05. Gross margin on product sales of $0.528M was $0.161M.

Expenses increased 7% due to once off costs associated with production training, infrastructure and quality accreditation. Research and Development continued to be the predominant expense item, amounting to $1.59M, or 44% of expenses.

The cash position is sound, with a balance of $8.46M at 31 December 2005.

Significant increases in work in progress levels were recorded as production increased ahead of full scale production release. Total inventories at period end were $1.209M, up 80% in the six months from 30 June 2005.

Progress with the Pentax Flexible Endo-microscope Project

The Pentax project has continued to be the highest priority activity of the company throughout the half year to December.

We have completed all the necessary arrangements at Optiscan for the supply of product to Pentax for full scale production release. We have tuned our production arrangements and engaged and trained new staff in readiness for increased manufacturing and assembly activity. As reported at the AGM in November, the revised timeline for Pentax completing transfer to full-scale manufacture is February 2006. This was completed and announced on 6 March following successful finalisation of all Pentax product type testing in mid February.

During the half year, the Pentax clinical trial program continued building efficacy data critical to the medium term uptake of the technology. Design of trials to support FDA regulatory claims of efficacy and ultimately the case for reimbursement from medical insurers has been a feature of activity over the period. Further extremely positive trial results were published in the November edition of the peer reviewed journal *Gastrointestinal Endoscopy*.

New business development : Rigid endoscopy

The global market for rigid endoscopes is very similar in size to the flexible endoscope market. At an estimated market size of around US$1 billion, rigid endoscopy is an important new market for Optiscan. The potential applications of confocal endo-microscopy in rigid endoscope form are numerous, and our continuing dialogue with both medical practitioners and industry participants indicates an increasingly strong interest in the opportunities for our technology.

During the half year, we have continued our discussions with a number of parties under appropriate confidentiality arrangements, but no conclusions have yet been reached. In order to advance this process, we are conducting human clinical pilot trials with prototype instruments. The targeted end points of these pilot trials are identification of the potential efficacy of rigid endo-microscope images for abdominal organ applications, and identification of the clinical care pathways.

Detailed planning to identify high potential intra-operative uses and production of the trial instrument was completed during the half year. The first of the trials recently commenced in

Sydney and another will soon follow in Germany, with results expected over the coming three months.

We expect that successful outcomes from these pilot trials will heighten the level of interest in our technology, dramatically reduce applications risks and advance the prospects of entering into new collaborative relationships covering opportunities in the rigid endoscope market.

New business development : FIVE 1 Research instrument

During the half year we announced our plans to release a new instrument targeted at the research market, and, more particularly, at drug development. This market is modest in size compared to medical markets but features lower regulatory constraints while offering good potential for higher margin sales.

The instrument will be known as the Optiscan FIVE 1, standing for Fluorescent In-Vivo Endo-microscope. A prototype was released at an industry exhibition in Copenhagen in November, and it received a very positive response from its target market. At a subsequent convention in USA in January, we were pleased to observe that there was considerable excitement about the potential of this new instrument, and a good deal of interest was being expressed in arrangements for purchase and date of availability in market.

We are currently completing final design and transfer to manufacture activities including building of additional prototype instruments for validation testing. The FIVE 1 will be released in the first half of 2006.

Product pipeline development

During the half year, R&D activities on three key product pipeline developments accelerated. Significant progress was made in the project to develop a fully digital system architecture for future instruments. Solid progress was made on development of newer smaller endo-microscope scanner prototypes and we commenced work on a project examining the use of new generation multiphoton lasers to enable deeper imaging within tissue.

Outlook for H2 2005/06

There is much to look forward to in the coming months. We are actively shipping product to Pentax in support of first sales to end-users following full-scale production release.
We plan to release the FIVE 1 research instrument later in the current financial year. This will provide a second market and an adjunct line of business for the company.

The current rigid endo-microscope pilot trials will seek to demonstrate the use of our technology in intra-operative clinical procedures, and this might lead us to securing the first of what could be a series of licensing arrangements for rigid endo-microscopes.

Pentax is committed to capture the growth potential created by our collaboration on endo-microscopy. This will result in our R&D activities focusing on development of new and improved second generation instruments. This will leverage and support Optiscan's product development pipeline and ensure that our instruments retain their market leading position in microscopic imaging for medical markets.

Auditor's Independence Declaration

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is attached to this report.

This report has been made in accordance with a resolution of directors.

Grant Latta	Matthew Barnett
Chairman	Managing Director

Melbourne, 9 March 2006

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Auditor's Independence Declaration to the Directors of Optiscan Imaging Limited

In relation to our review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Denis Thorn
Partner
9 March 2006

Condensed Income Statement
for the half year ended 31 December 2005

	Note	CONSOLIDATED	
		2005	2004
		$	$
Continuing operations			
Revenue	2	569,366	935,073
Cost of sales		(408,188)	(719,483)
Gross profit		161,178	215,590
Other income	2	1,319,118	551,136
Other expenses		(3,612,241)	(3,351,823)
Loss from continuing operations before tax and finance costs		(2,131,945)	(2,585,097)
Finance costs		-	-
Loss before income tax		(2,131,945)	(2,585,097)
Income tax expense		(94,650)	(14,485)
Net loss for period		(2,226,595)	(2,599,582)
Net loss attributable to members of parent		(2,226,595)	(2,599,582)
Earnings (loss) per share (cents per share)			
- basic for loss for half year		(2.22)	(3.22)
- diluted for loss for half year		(2.22)	(3.22)

Optiscan Imaging Limited and Controlled Entities

A.C.N. 077 771 987

Condensed Balance Sheet
as at 31 December 2005

	CONSOLIDATED	
	31 December 2005	30 June 2005
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	8,466,471	11,716,819
Trade and other receivables	611,486	227,579
Inventories	1,209,429	671,625
Prepayments	90,991	42,325
Total Current Assets	10,378,377	12,658,348
Non-current assets		
Plant and equipment	422,866	453,860
Intangible assets	1,981,467	1,981,467
Total Non-current Assets	2,404,333	2,435,327
TOTAL ASSETS	12,782,710	15,093,675
LIABILITIES		
Current Liabilities		
Trade and other payables	360,850	622,501
Provisions	207,553	182,462
Total Current Liabilities	568,403	804,963
Non-current Liabilities		
Provisions	313,056	232,725
Total Non-current Liabilities	313,056	232,725
TOTAL LIABILITIES	881,459	1,037,688
NET ASSETS	11,901,251	14,055,987
EQUITY		
Issued capital	39,136,800	39,136,800
Other reserves	271,522	199,663
Accumulated losses	(27,507,071)	(25,280,476)
TOTAL EQUITY	11,901,251	14,055,987

Condensed Cash Flow Statement
for the half year ended 31 December 2005

	CONSOLIDATED	
	31 December 2005	31 December 2004
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	313,859	56,184
Grant income received	101,154	35,212
Royalty income received	749,970	305,988
Payments to suppliers and employees	(4,431,385)	(3,694,526)
Interest received	275,750	235,127
Withholding tax paid	(94,650)	(14,485)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(3,085,302)	(3,076,500)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(155,438)	(160,873)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(155,438)	(160,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	-	3,894,000
Share issue costs	-	(233,640)
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	3,660,360
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,240,740)	422,987
Add opening cash brought forward	11,716,819	9,705,699
Effect of exchange rate changes on cash	(9,608)	3,939
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8,466,471	10,132,625

Optiscan Imaging Limited and Controlled Entities

A.C.N. 077 771 987

Condensed Statement of Changes in Equity

for the half year ended 31 December 2005

CONSOLIDATED	Issued capital	Accumulated losses	Other Reserves	Total
At 1 July 2004	32,824,959	(20,015,945)	90,901	12,899,915
Loss for the period	-	(2,599,582)	-	(2,599,582)
Issue of shares	3,660,360	-	-	3,660,360
Cost of share based payment	-	-	57,523	57,523
At 31 December 2004	36,485,319	(22,615,527)	148,424	14,018,216

CONSOLIDATED	Issued capital	Accumulated losses	Other Reserves	Total
At 1 July 2005	39,136,800	(25,280,476)	199,663	14,055,987
Loss for the period	-	(2,226,595)		(2,226,595)
Issue of shares	-			-
Cost of share based payment	-		71,859	71,859
At 31 December 2005	39,136,800	(27,507,071)	271,522	11,901,251

Notes to the half year financial statements

31 December 2005

Note 1: Basis of Preparation of Half Year Financial Report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Optiscan Imaging Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ("AGAAP").

It is also recommended that the half-year financial report to be considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The financial report has been prepared on a historical cost basis.

For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

(b) Statement of Compliance

The half year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half year financial report prepared based on AIFRS and comparatives for the half year ended 31 December 2004 and full year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS loss for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1 (e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(ii) Foreign currency translation

Both the functional and presentation currency of Optiscan Imaging Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. There are no such amounts in the current reporting period.

Note 1: Basis of Preparation of Half Year Financial Report (continued)

(ii) Foreign currency translation (continued)

The functional currency of the overseas subsidiary, Optiscan Inc, is United States dollars (US$).

As at the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Optiscan Imaging Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

(iii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:
Plant and equipment – over 2 to 5 years

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

(iv) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Notes to the half year financial statements

31 December 2005

Note 1: Basis of Preparation of Half Year Financial Report (continued)

(iv) Goodwill (continued)
Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(v) Intangible assets - Research and development costs
Research costs are expensed as incurred.

Development expenditure is carried forward when its future recoverability can reasonably be regarded as assured. At present, development expenditure is expensed as incurred.

(vi) Recoverable amount of assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vii) Inventories
Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Raw materials – purchase cost on a first-in, first-out basis;
Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(viii) Trade and other receivables
Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts, if appropriate.

(ix) Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(x) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Note 1: Statement of Significant Accounting Policies

(xi) Share-based payment transactions

The Group provides benefits to employees (including executive directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity settled transactions') through the Employee Share Option Plan (ESOP).

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes option pricing model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Optiscan Imaging Limited ('market conditions'). The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xii) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xiii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

Revenue from the provision of service is recognised when the Group controls a right to be compensated for the provision of such services, and, if appropriate, the stage of completion can be reliably measured.

Note 1: Statement of Significant Accounting Policies

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(xiv) Government grants
Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(xv) Income tax
Deferred income tax assets and liabilities are not recognised as it is not yet probable that sufficient taxable profit will be available to allow all or part of the carry forward unused tax losses to be utilised.

(xvi) Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

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

Withholding tax deductions from remittances of royalties to the Group are made in accordance with the tax obligations of the payer. The benefits of these tax credits have not been brought to account as their realisation is not probable at this time, and they are written off as income tax expense.

Note 1: Statement of Significant Accounting Policies

(xvi) Income tax (Continued)
Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(d) AASB 1 Transitional exemptions
The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations
AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions
AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(e) Impact of adoption of AIFRS
The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	CONSOLIDATED		
	30-Jun-2005	31-Dec-2004	1-Jul-2004
	$	$	$
Total equity under AGAAP	13,381,323	13,680,884	12,899,915
Adjustments to equity:			
Write-back of goodwill amortisation (A)	674,664	337,332	-
Total equity under AIFRS	14,055,987	14,018,216	12,899,915

There is no income tax effect on these adjustments as no tax assets or liabilties on timing differences are recognised at this time. This is consistent with the policy position adopted under AGAAP.

(ii) Reconciliation of loss after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	30-Jun-2005	31-Dec-2004
	$	$
Loss after tax as previously reported	(5,830,434)	(2,879,391)
Write back of goodwill amortisation (A)	674,664	337,332
Recognition of share based payment expense (B)	(108,762)	(57,523)
Loss after tax under AIFRS	(5,264,532)	(2,599,582)

(A) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(B) Under AASB 2 Share Based Payments, the company recognises the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs are not recognised under AGAAP.

(iii) Explanation of material adjustments to the cash flow statements
There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

		CONSOLIDATED	
		31 December 2005	31 December 2004
		$	$

Note 2: Revenue and Expenses

(a) Specific Items

Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

		31 December 2005 $	31 December 2004 $
(i)	**Revenue**		
	Sale of goods	528,531	923,670
	Rendering of services	40,835	11,403
	Royalty income	953,546	287,883
	Finance income	273,614	225,702
		1,796,526	1,448,658
(ii)	**Other income**		
	Government grants released	91,958	35,212
	Other income	-	2,339
		91,958	37,551
	Total income from ordinary activities	1,888,484	1,486,209
(ii)	**Expenses**		
	Depreciation	186,432	203,256
	Employee benefits	2,282,238	2,005,207
	Expense of share based payments	71,859	57,523

(b) Seasonality of operations

Although there is no inherent seasonality in the ongoing operations of the company, the commencement of supply of product to Pentax will occur mainly in the second half of the financial year as a result of the timing of product release to third party customers by Pentax.

Note 3: Issued Capital

	Half Year ended 31 December 2005	Year ended 30 June 2005
Ordinary Shares		
Issued and fully paid	$39,136,800	$39,136,800
Movements in issued capital		
At 1 July 2005	39,136,800	32,824,959
Issue of 11,800,000 ordinary shares pursuant to institutional placement	-	3,894,000
Issue of 8,123,850 ordinary shares pursuant to share purchase plan	-	2,681,000
Less transaction costs	-	(263,159)
	$39,136,800	$39,136,800

	No of shares	No of shares
Movements in ordinary shares on issue		
At 1 July 2005	100,144,573	80,220,723
Issue of 8,123,850 ordinary shares pursuant to share purchase plan		11,800,000
Issue of 11,800,000 ordinary shares pursuant to institutional placement	-	8,123,850
	100,144,573	100,144,573

Note 4: Segment Information

The consolidated entity operates predominantly in one industry and one geographical segment, those being medical device technology and Australia respectively.

Note 5: Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

Note 6: Events After the Balance Sheet Date

Subsequent to 31 December 2005, there has been no event that has significantly or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

Note 7: Additional Information

Reconciliation of cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED	
	31 December 2005	31 December 2004
	$	$
Cash at bank and in hand	134,861	227,396
Term Deposits	8,331,610	9,905,229
	8,466,471	10,132,625

Optiscan Imaging Limited

A.C.N. 077 771 987

Directors' Declaration

In accordance with a resolution of the Directors of Optiscan Imaging Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

For and on behalf of the board

Grant Latta	Matthew Barnett
Chairman	Managing Director

Melbourne, 9 March 2006

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Independent review report to members of Optiscan Imaging 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, accompanying notes to the financial statements for the consolidated entity comprising both Optiscan Imaging Limited (the company) and the entities it controlled during the half year, and the directors' declaration, for the company, for the half year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the ASX and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, 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*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company 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 is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of the consolidated entity Optiscan Imaging Limited and the entities it controlled during the half year ended 31 December 2005 is not in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and

(ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Denis Thorn
Partner
Melbourne
9 March 2006