



LMA INTERNATIONAL N.V.

Company Registration No. 80879

Financial Statements for the Three Months ended March 31, 2006 (In accordance with U.S. Generally Accepted Accounting Principles)

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF YEAR AND FULL YEAR RESULTS.

- 1 (a) An income statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group Consolidated Statement of Operations:

(U.S. Dollars, in thousands)	Three months ended March 31,	
	2006	2005
Net sales	\$20,451	\$20,577
Cost of sales	(5,673)	(4,743)
Gross profit	14,778	15,834
Operating expenses (Note (1))		
Selling, general and administrative	(9,225)	(8,496)
Research and development	(415)	(211)
Amortisation of intangible assets	(14)	(9)
	(9,654)	(8,716)
Total operating income	5,124	7,118
Interest income	179	36
Interest expense	(102)	(63)
Other, net (Note (2))	(19)	(231)
Other income / (expenses), net	58	(258)
Net income before income taxes, minority interests and share of net earnings of associate	5,182	6,860
Income tax expense	(597)	(672)
Minority interests	92	(25)
Share of net earnings of associate (Note (6))	(27)	-
Net income excluding non-recurring charges and stock compensation charge	\$4,650	\$6,163
<u>Non-recurring charges and stock compensation charge (Note (7)):</u>		
Stock compensation charge	(314)	-
Non-recurring stock compensation charge	-	(24,160)
One-off loyalty bonus (net of tax credit)	-	(3,139)
Net income (loss)	\$4,336	\$(21,136)

Notes:

(U.S. Dollars, in thousands)

- | | | |
|--|-----|-------|
| (1) Included in operating expenses above are: | | |
| Depreciation and amortisation | 510 | 467 |
| Allowance for doubtful debts | - | - |
| Profit on sale of properties, plant and equipment | - | - |
| (2) Included in other income above are foreign exchange gains / (losses) | 13 | (221) |
| (3) Included in income tax expenses are adjustments for under or (over) provision of tax in respect of prior years | - | - |
| (4) No bad debts were written off, neither were there any write-offs for stock obsolescence. | | |
| (5) There was no impairment in value of investments during the three months ended March 31, 2006. | | |
| (6) Under U.S. GAAP, we are required to make an adjustment to eliminate unrealised profit on our 30% share of our associate's (LMA PacMed Pty Ltd) inventory of laryngeal masks. This adjustment is netted off against share of net earnings of associate which in this quarter resulted in a net deduction. | | |

- (7)(i) Under the Company's Executive Share Option Plan, we issued share options to certain of our directors and employees during 2005. Under current U.S. GAAP, we are required to treat the fair value of these share awards as a compensation expense from 2006 onwards. The Company uses the Black-Scholes valuation model for calculating the fair value of these options and has determined that it will adopt the modified prospective method, as permitted under U.S. GAAP. The accounting treatment for these options has no impact on our cash flow, net assets or distributable reserves.
- (ii) Prior to the commencement of our offering in March 2005, we issued shares to certain of our directors, employees and associates, as well as issued shares to option holders and stockholders of LMA North America Inc. (LMANA) in connection with the LMANA reorganisation. Under U.S. GAAP, we are required to treat the fair market value of these share awards, together with such excess of fair market value over the exercise prices payable under that plan, as a compensation expense in the first quarter of the financial year ending December 31, 2005. This charge amounted to US\$24.2 million. Although this accounting treatment has no impact on our cash flow, net assets or distributable reserves, it caused us to record a net loss for the year ended December 31, 2005.
- (iii) Non-recurring loyalty bonus payable upon the Company's listing in the aggregate of US\$5.2 million (including employment taxes) was charged in the first quarter of 2005. This payment is deductible for tax purposes.

1 (b)(i) A balance sheet for the group, together with a comparative statement as at the end of the immediately preceding financial year (under U.S. GAAP, the Company does not present a balance sheet)

(U.S. Dollars, in thousands)	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$19,035	\$25,693
Trade accounts receivable, less allowance for doubtful accounts	9,279	11,690
Related party receivables	2,001	1,920
Inventories	8,903	8,980
Deferred income taxes	548	574
Prepaid expenses	1,197	586
Other current assets	3,573	2,696
Total current assets	44,536	52,139
Deferred tax assets	170	89
Property, plant and equipment, net	5,320	5,552
Patents and other intangible assets, net	3,325	1,312
Investments	5,013	5,065
Goodwill	5,824	5,824
Other long-term assets	21	21
Total assets	\$64,209	\$70,002
Liabilities and shareholders' equity		
Current liabilities:		
Short-term bank borrowings	\$-	\$2,000
Trade accounts payable	1,756	1,145
Accounts payable to related parties	2,836	2,871
Other current liabilities	5,676	6,596
Total current liabilities	10,268	12,612
Long-term bank borrowings	-	8,000
Deferred income taxes	-	-
Other long-term liabilities	102	102
Total liabilities	10,370	20,714
Minority interests	(92)	-
Commitments and contingencies	-	-
Shareholders' equity		
Common shares: US\$0.0001 par value. Issued: 580,946,581	58	58
Additional paid-in capital	45,299	44,985
	45,357	45,043
Retained earnings	7,883	3,547
Accumulated other comprehensive income	691	698
Total shareholders' equity	53,931	49,288
Total liabilities, minority interests and shareholders' equity	\$64,209	\$70,002

1 (b)(ii) Aggregate amount of group's borrowings and debt securities.

(U.S. Dollars, in thousands)	At March 31, 2006		At December 31, 2005	
	Secured	Unsecured	Secured	Unsecured
Repayable within one year	\$-	\$-	\$-	\$2,000
Repayable after one year	-	-	-	8,000

1 (c) A cash flow statement for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

(U.S. Dollars, in thousands)	Three months ended March 31,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$4,336	\$(21,136)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortisation	510	467
Deferred taxes	2	(36)
Minority interest in net income of consolidated subsidiaries	(65)	25
Non-cash U.S. GAAP stock compensation charge	314	24,160
Changes in operating assets and liabilities:		
Decrease in trade accounts receivables and related party receivables	2,361	3,420
Decrease / (increase) in inventories	95	(1,000)
(Increase) in other assets	(1,632)	(2,288)
Increase / (decrease) in trade accounts payable and accounts payable to related parties	520	(3,428)
(Decrease) in other current liabilities	(830)	(431)
Net cash provided by (used in) operating activities	5,611	(247)
Cash flows from investing activities:		
Purchase of investment	(1,913)	(974)
Capital expenditures	(361)	(592)
Net cash used in investing activities	(2,274)	(1,566)
Cash flows from financing activities:		
Net proceeds from issue of common shares	-	16,070
Proceeds from exercise of stock options	-	65
Dividends paid	-	(3,452)
Repayment of advances from related parties	-	(14,076)
Repayment of subordinated loan	-	(3,500)
Proceeds from bank borrowings	-	20,000
Repayment of bank borrowings	(10,000)	(10,000)
Net cash (used in) provided by financing activities	(10,000)	5,107
Effect of exchange rates changes on cash	5	8
Net (decrease) / increase in cash and cash equivalents	(6,658)	3,302
Cash and cash equivalents at the beginning of the period	25,693	10,744
Cash and cash equivalents at the end of the period	\$19,035	\$14,046
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$297	\$27
Income taxes	\$67	\$522

- 1 (d)(i) A statement for the group showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year (under U.S. GAAP, the Company does not present a statement of changes in equity).

(U.S. Dollars, in thousands)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Shareholders' equity
At January 1, 2006	\$58	\$44,985	\$3,547	\$698	\$49,288
Net income for the period	-	-	4,336	-	4,336
Foreign currency translation adjustment	-	-	-	(7)	(7)
Total comprehensive income					4,329
Stock compensation charge	-	314	-	-	314
At March 31, 2006	\$58	\$45,299	\$7,883	\$691	\$53,931

(U.S. Dollars, in thousands)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Shareholders' equity
At January 1, 2005	\$6	\$1,340	\$6,085	\$775	\$8,206
Net loss for the period	-	-	(21,136)	-	(21,136)
Foreign currency translation adjustment	-	-	-	17	17
Total comprehensive income / (loss)					(21,119)
Stock options exercised	-	65	-	-	65
Acquisition of minority interest	-	3,138	-	-	3,138
Stock issued on public offering	52	16,018	-	-	16,070
Stock compensation charge	-	24,160	-	-	24,160
At March 31, 2005	\$58	\$44,721	\$(15,051)	\$792	\$30,520

- 1 (d)(ii) Details of any changes in the company's share capital.

None.

2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have been not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial year with those adopted for the financial year ended December 31, 2005.

The Group's consolidated financial statements have been prepared in accordance with U.S. GAAP.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Under the Company's Executive Share Option Plan, we issued share options to certain of our directors and employees during 2005. Under current U.S. GAAP, we are required to treat the fair value of these share awards as a compensation expense from 2006 onwards. The Company uses the Black-Scholes valuation model for calculating the fair value of these options and has determined that it will adopt the modified prospective method, as permitted under U.S. GAAP. The accounting treatment for these options has no impact on our cash flow, net assets or distributable reserves.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

(U.S. Dollars, in thousands, except share and per share amounts)	Three months ended March 31,	
	2006	2005 (restated)
Net Income attributable to shareholders excluding one-off charges and stock compensation charge	\$4,650	\$6,163
Number of shares	580,946,581	580,946,581
Earnings per share before non recurring items (in U.S. cents)	0.800	1.061

Earnings per share for the three months ended March 31, 2005 have been restated to reflect the number of issued shares (580,946,581) after the Company's listing in March 2005.

7. **Net asset value for the group per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial year.**

(U.S. Dollars, in thousands, except per share amounts)	March 31, 2006	December 31, 2005
Net assets of the Group	\$53,931	\$49,288
Net assets per share (in U.S. cents)	9.283	8.484

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

The LMA International NV Group designs, develops, markets and distributes medical equipment, principally the LMA™ laryngeal mask airway line of supraglottic airway device products. These are airway management devices used by physicians to allow respiration, provide ventilation to and support the airway of patients undergoing surgical procedures and life-saving interventions. We market and distribute our products in over 100 countries through a combination of our direct sales force in the United States, Germany and Singapore and a network of 68 independent distributors. Our U.S. and other direct sales reflect higher net prices, as they are direct to end-users, than through our distributors.

The following tables set forth our sales for each of our two geographic markets, expressed in U.S. dollars and as a percentage of total net sales, as well as total sales by units, of reusable and of single-use products, together with global average revenue per unit for such devices:

	Three months ended March 31,			
	2006		2005	
	US\$'000		US\$'000	
United States	12,784	63%	12,755	62%
Rest of the World	7,667	37%	7,822	38%
Total net sales	20,451	100%	20,577	100%
Reusable devices	10,113	49%	11,929	58%
Single-use devices	9,511	47%	8,256	40%
Other	827	4%	392	2%
Total	20,451	100%	20,577	100%

	Three months ended March 31,	
	2006	2005
Reusable units sold	56,045	66,249
Single-use units sold	991,004	778,162
Total units sold	1,047,049	844,411
Average revenue per unit of reusable units (US\$)	180.44	180.05
Average revenue per unit of single-use units (US\$)	9.60	10.61

First quarter of 2006 (Q1 2006) compared to first quarter of 2005 (Q1 2005).

Group net sales for Q1 2006 were adversely affected by various initiatives implemented as part of the Group's strategy to improve its longer term sales management and distribution capability in its markets outside the United States. These included the change in the distributor arrangements in Japan for single-use products, the appointment of a new Country head in Germany, both of which were announced in February this year, the replacement of several poor performing distributors in South America and the replacement of two senior managers in sales management. Collectively, these initiatives were largely responsible for the lack of growth in sales in Q1 2006. During this quarter the market remained highly competitive, particularly in Europe.

Net sales in the United States at US\$12.8 million were flat compared to Q1 2005 following an exceptionally high growth of 24% in Q4 2005 over Q4 2004 as a result of some very successful year end sales promotions. Some selling time on existing products was also diverted to the launch of the new LMA CTrach™ which was well received.

Group net sales for the Rest of the World at US\$7.7 million was marginally down on Q1 2005 for the reasons stated earlier. However, it is expected that the initiatives taken will begin to show positive results in the second half of this year. Although sales in Germany for Q1 2006 were down on Q1 2005 they exceeded sales in both Q3 and in Q4 2005 which was encouraging. We expect sales in Germany for the full year in 2006 should improve on sales for 2005.

The launch of our LMA CTrach™ device in Q1 2006 was successful in both the U.S. and the Rest of the World with initial net sales of US\$0.5 million.

Gross profit decreased by US\$1.0 million, or 7%, to US\$14.8 million for Q1 2006 from US\$15.8 million for Q1 2005. The decrease was due primarily to sales being broadly flat and the change in the mix of product sales. Gross margin at 72.3% for Q1 2006 was slightly down from 76.9% for Q1 2005, also due primarily to a change in the mix of product sales.

Selling, general and administrative expenses increased by 9% to US\$9.2 million for Q1 2006 from US\$8.5 million in Q1 2005. This increase included the cost of terminating the single-use distribution arrangements in Japan, the cost for the closure of the U.K. support service office, staff severance payments and cost of recruitment of new officers. These costs were partially offset by a contribution to our legal costs by Tyco as part of the settlement of our patent infringement claims, but the net cost of these items approached US\$1.0 million. Other than these items operating expenses remain under tight control. Operating costs incurred by LMA Urology and included in our consolidated financial statements amounted to US\$0.1 million. Selling, general and administrative expenses as a percentage of net sales increased to 45% for Q1 2006 from 41% in Q1 2005, mainly as a result of the items set out above.

Operating income decreased by 28% to \$5.1 million for Q1 2006 from \$7.1 million for Q1 2005 due to the factors set out above.

Income tax expense was US\$0.6 million for Q1 2006 as compared to US\$0.7 million for Q1 2005. The effective tax rate was 12% for Q1 2006, compared to 10% for Q1 2005. This increase in the effective tax rate was due to withholding taxes suffered on the payment of interest on intercompany loans and a higher provision in the United States due to minor adjustments to prior period calculations.

Net income excluding non-recurring charges and stock compensation charge decreased by 24.5% to US\$4.6 million for Q1 2006 from US\$6.1 million for Q1 2005. Net income margin, excluding one-off charges, was 23% for Q1 2006 down from 30% for Q1 2005.

Net assets* amounted to US\$53.9 million at March 31, 2006, some US\$4.6 million higher than December 31, 2005. This was partly due to the repayment of the bank loan of US\$10 million.

Net cash provided by operating activities was US\$5.2 million for Q1 2006. Net cash used in investing activities totalled US\$1.9 for Q1 2006, primarily due to the investment in a 50% share of LMA Urology, to develop the distribution of the Stonebreaker™, a lithotripsy device.

* Net Assets are measured as Total Assets less Total Liabilities less minority interest.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The market is expected to continue to remain highly competitive for the rest of 2006 with aggressive price led competitor activities being the main feature. Additionally some competitors are also expected to introduce new devices during the year although the withdrawal of the Laryngoseal® device by Tyco following its out of court settlement with the Group over its patent litigation case in Germany will result in the removal of a potentially significant competitor.

The Group remains positive and expects the operational improvement initiatives taken in Q1 and the successful launch of the CTrach™ device to have a significant impact on the Group's results for the full year. Together with planned distribution and sales activities in major emerging markets in the second half of 2006 the Group expects both sales and profit for the full year to improve on results in 2005.

Activities for its newly acquired urology product are on track and the Stonebreaker™ device is expected to be launched in the second half of 2006.

11. Dividends.

Not applicable.

12. If no dividend has been declared (recommended), a statement to that effect.

The Company does not intend to declare dividends in the foreseeable future and did not declare any dividends in the first quarter of either year in this statement.

13. Interested person transactions.

Details of interested party transactions for the three months ended March 31, 2006 are as follows:

Name of interested person	Aggregate value of all interested person transactions during the three months ended March 31, 2006 (excluding transactions less than \$100,000 and transactions conducted under shareholders mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Venner Trading Limited	-	\$1,202,000
Venner Trading Singapore Limited	-	\$3,739,000