

HEARTWARE LIMITED

ABN 34 111 970 257



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Manager of Company Announcements
Australian Stock Exchange Limited
Level 6
20 Bridge Street
SYDNEY NSW 2000

31 July 2006
BY E-LODGE MENT

Dear Sir / Madam

**Interim Financial Report
ASX Appendix 4D**

Please see the Company's 2006 Interim Financial Report for the 6 months ended 30 June 2006.

Yours faithfully

**David McIntyre
Chief Financial Officer &
Company Secretary**



HEARTWARE LIMITED

ABN 34 111 970 257

Half Year Report for the period ended 30 June 2006 provided pursuant to ASX Listing Rule 4.2A.

This is the Half Year Report and Interim Financial Report for the HeartWare Group. The HeartWare Group includes HeartWare Limited (ASX : HTW) and its subsidiary, HeartWare, Inc..

This Half Year Report does not include all of the commentary, notes and information that are typically found in an annual financial report. Accordingly, this Half Year Report should be read in conjunction with any public announcements made by the Company during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

This Half Year Report provides information as required by Appendix 4D of the ASX Listing Rules.



HeartWare Limited (ABN 34 111 970 257)

Results for Announcement to the Market

Important information concerning the financial results for the half year ended 30 June 2006

The financial results set out in this Half Year Report and the attached Interim Financial Report are the consolidated financial results for the HeartWare Group, being HeartWare Limited ("HeartWare" or "the Company") and its subsidiary, HeartWare, Inc..

The Interim Financial Report has been prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"). A reconciliation of differences between previous Australian GAAP and AIFRS has been included in Note 2 of the Interim Financial Report.

All figures ("\$\$") referred to in this Half Year Report and the Interim Financial Report are denominated in Australian dollars.

Review of Operations and Earnings Results for the Half Year Ended 30 June 2006

The net loss of the HeartWare Group for the half year ended 30 June 2006 after providing for income tax was \$10,594,529. The result reflects increased expenditure by the Company relating to the commercialisation of its range of circulatory assist devices or "heart pumps", which are used for the treatment of congestive heart failure.

	Half Year Ended 30 June 2006 \$	Half Year Ended 30 June 2005 \$	Percentage Change %
Sales revenues	-	-	-
Profit / (Loss) before interest, tax, depreciation and amortisation ("EBITDA")	(9,109,050)	(7,782,355)	117
Profit / (Loss) before interest and tax ("EBIT")	(10,579,845)	(9,041,533)	117
Income tax benefit	-	-	-
Net Profit / (Loss) attributable to members ("NPAT")	(10,594,529)	(9,053,527)	117
Net tangible assets per ordinary share (cents per share)	18.79	13.70	137

A summary of significant achievements for the half year ended 30 June 2006 is set out below:

(a) Clinical trials

During the half year ended 30 June 2006 HeartWare initiated its human clinical trials for its lead product, the HVAD™ Left Ventricular Assist Device. As at 31 July, two patients have been implanted with the device.



HeartWare Limited (ABN 34 111 970 257)

Results for Announcement to the Market (Continued)

The two implants of the HVAD™ device were conducted at the Vienna General Hospital in Austria on 22 March 2006 and 19 April 2006 respectively by a surgical team led by cardiothoracic surgeon Dr Georg Wieselthaler. In both cases the surgery was completed quickly, highlighting the relative simplicity of the procedure and the implants were completed without incident.

At 31 July 2006, the two implanted patients have been supported for a cumulative period of 231 days. Over this period the pumps have performed flawlessly. Both patients are at home, having been discharged from hospital, and both continue to recover extremely well.

Although the clinical study is at an early stage, of particular note has been the complete absence of pump related haemolysis in either of the first two patients. Haemolysis refers to the damage to red blood cells typically observed in patients implanted with a mechanical circulatory assist device. A modest level of haemolysis is generally expected and is considered clinically acceptable. In the HVAD™ patients to date the level of haemolysis has been in the normal physiological range, suggesting that the HVAD™ device is causing no measurable damage to the blood. While this observation will need to be confirmed over a larger number of patients, it does provide significant and positive validation of the HVAD™ design.

The clinical trial currently underway is aimed at achieving European and Australian regulatory approval for the HVAD™ device. The trial calls for the implantation of the device in twenty patients with advanced heart failure. The primary endpoint for the trial is survival to 180 days or cardiac transplantation. Patients will be enrolled into the trial through four participating centres – the Vienna General Hospital (Austria), Royal Perth Hospital (Australia), Harefield Hospital (UK) and Hanover Medical Centre (Germany).

(b) Regulatory Approval

In order to implant the HVAD™ Left Ventricular Assist Device, HeartWare requires regulatory approval from the relevant regulatory authority in each jurisdiction in which implants are to occur.

During the half year ended 30 June 2006 HeartWare gained Ethics Committee approvals from all four centres participating in the clinical trial, namely the Vienna General Hospital, Royal Perth Hospital, Harefield Hospital and Hannover Medical Centre. Further, HeartWare submitted applications to the regulatory authorities in Austria, Australia, the United Kingdom and Australia and has received regulatory approvals in all four countries to implant the HVAD™ device under the current clinical trial protocol.

(c) Operations / Manufacturing

A key objective for HeartWare over the half year ended 30 June 2006 was to transition the Company from a product development focus into a quality manufacturer of Class III medical devices.

Under the guidance of Mr Dozier Rowe, HeartWare's recently appointed Chief Operating Officer, the Company is completing a comprehensive review of its manufacturing and operational capabilities. The purpose of this exercise has been to optimise internal processes with a view to ensuring HeartWare's current capacity supports a level of production that will provide a sufficient quantity of pumps to satisfy clinical trial requirements through the remainder of 2006.

A comprehensive plan has been adopted to drive an incremental scaling up of manufacturing output in line with the anticipated clinical demand. HeartWare's existing facility and capital equipment will support manufacturing capacity in excess of projected medium term requirements. This will enable a relatively inexpensive and efficient process of manufacturing scale-up through 2007 and early 2008 to meet both expanded US clinical trial requirements and the early commercial sales of the device in Europe and Australia.



HeartWare Limited (ABN 34 111 970 257)

Results for Announcement to the Market (Continued)

(d) Capital Raising

The Company is presently in a strong financial position having completed a significant equity financing in late May 2006, raising \$32.6 million from institutional and sophisticated investors in Australia and the United States. The capital raising was priced at \$1.10 per share, representing a 3% discount to the price of the Company's shares at the time that the transaction was announced.

The capital raising, which was oversubscribed, was well supported both by existing HeartWare shareholders and by several new institutional investors from both Australia and the United States.

The proceeds of the capital raising are to be used to fund the further development and commercialisation of HeartWare's HVAD™ device and to advance the Company's MVAD™ program. The funds will allow HeartWare to complete its current European clinical trial and to make significant inroads in its planned US clinical trial program. The funding will also be applied to scaling up HeartWare's manufacturing capability in order to meet the clinical demand anticipated for the HVAD™ device through 2007.

Cash Flow

As at the end of the half year, the Company has cash reserves of approximately \$34,278,543.

During the half year, HeartWare took further steps towards its goals of commercialisation of its range of circulatory assist devices and, to this end, expended funds in a variety of areas including clinical trial costs, product development and testing, pre-production, research and development.

Dividends

The *Corporations Act 2001* prohibits the Company from declaring a dividend until such time as it has achieved sufficient profits to support such a dividend. The Directors are therefore unable to, and do not, recommend that a dividend relating to the half year ended 30 June 2006 be declared or paid by the Company.

Earnings Per Share (EPS)

	30 June 2006 Cents	30 June 2005 Cents
Basic and diluted earnings per share (cents per share)	(8.29)	(8.11)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	127,839,658	111,636,090

The amount used as the numerator in calculating basic and diluted EPS (for 30 June 2006) is the NPAT figure reported in the section entitled "Review of Operations and Earnings Result for the Half Year Ended 30 June 2006" above.



HeartWare Limited (ABN 34 111 970 257)

Results for Announcement to the Market (Continued)

Segment Reporting

The consolidated entity operates in the medical devices sector and conducts integrated operations in Miami, USA and Sydney, Australia. The HeartWare Group is developing and commercialising its range of circulatory assist devices or “heart pumps” which are used for the treatment of congestive heart failure. The Company does not yet have regulatory approvals so as to permit it to sell its products into the global market. Segment results are set out in the attached Interim Financial Report.

Compliance Statement

The attached Interim Financial Report is not subject to audit dispute or qualification. This Half Year Report is based on the Interim Financial Report which has been subject to an audit review. HeartWare has a formally constituted audit committee.

**Rob Thomas
Chairman
HeartWare Limited**

Date: 31 July 2006



HEARTWARE LIMITED

ABN 34 111 970 257

INTERIM FINANCIAL REPORT

30 June 2006

Provided in accordance with Section 320 of the *Corporation Act 2001*.



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CORPORATE DIRECTORY

Board of Directors

Robert Thomas, Non-Executive Chairman
 Seth Harrison, MD, Non-Executive Deputy Chairman
 Stuart McConchie, Chief Executive Officer
 Christine Bennett, MB, Non-Executive Director
 Denis Wade AM, MB, D.Phil., Non-Executive Director

Chief Executive Officer

Stuart McConchie

Registered Address

Suite 4, Level 46
 2 Park Street
 SYDNEY NSW 2000
 AUSTRALIA

Share Registry

Registries Limited
 Level 2
 28 Margaret Street
 SYDNEY NSW 2000
 AUSTRALIA

Advisory Board

O. Howard "Bud" Frazier, MD (Chairman)
 Steven Boyce, MD
 Laman Gray Jr., MD
 Ashgar Khagani, MD
 Gerry O'Driscoll, MD
 Stephen Westaby, MD
 Georg Wieselthaler, MD

Company Secretary

David McIntyre

US Office

3351 Executive Way
 Miramar
 MIAMI FLORIDA 33025
 UNITED STATES OF AMERICA

Auditors

Grant Thornton NSW
 Level 17
 383 Kent Street
 SYDNEY NSW 2000
 AUSTRALIA



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 30 JUNE 2006

		CONSOLIDATED 6 months to 30 June 2006	CONSOLIDATED 6 months to 30 June 2005
	Notes	\$	\$
Revenue	3	1,318,892	1,057,773
Depreciation and amortisation expenses	4	(1,470,795)	(1,259,178)
Administrative and facilities expenses		(235,986)	(148,743)
Audit, financial and taxation services		(14,043)	(38,948)
Consultants – clinical, regulatory and medical		(580,494)	(363,886)
Consultants – corporate advisory and investor relations		(211,498)	(167,958)
Contractor expenses		(104,543)	(272,396)
Information technology expense		(170,388)	(108,804)
Insurance expenses		(194,401)	(105,853)
Employment and directors' expenses		(4,598,780)	(2,272,548)
Financing costs		(14,684)	(11,994)
Foreign exchange expense		(825,915)	(598,450)
Legal expense – intellectual property protection, litigation costs and related expenditure		(155,406)	(575,814)
Legal expense – post ASX listing, corporate and commercial advisory		(248,314)	(206,783)
Raw materials and consumables used		(157,050)	(430,837)
Rental expense and outgoings		(283,908)	(158,277)
Research and development expenses		(879,499)	(61,899)
Share-based payments		(520,442)	(1,640,351)
Shareholder and listing costs		(152,826)	(607,932)
Travel, accommodation and related expenses		(725,459)	(514,261)
Trials – animal and human		(24,812)	(233,654)
Validation and verification expense		(99,756)	(224,357)
Other expenses		(244,422)	(108,377)
Loss before income tax		(10,594,529)	(9,053,527)
Income tax expense	6	-	-
Loss for the period		(10,594,529)	(9,053,527)
Loss attributable to members of the parent entity		(10,594,529)	(9,053,527)
Basic and diluted earnings per share - cents		(8.29)	(8.11)

The financial statements should be read in conjunction with the accompanying notes.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006

		CONSOLIDATED	CONSOLIDATED
	Notes	30 June 2006	31 December 2005
		\$	\$
Current Assets			
Cash and cash equivalents		34,278,543	13,679,897
Trade and other receivables		684,501	134,592
Inventories		435,229	-
Other current assets		277,201	336,328
Total Current Assets		35,675,474	14,150,817
Non-Current Assets			
Financial assets		2,691	-
Property, plant and equipment		2,463,554	1,870,517
Intangible assets		45,395,392	46,792,893
Total Non-Current Assets		47,861,637	48,663,410
Total Assets		83,537,111	62,814,227
Current Liabilities			
Trade and other payables		1,483,674	1,388,495
Short-term borrowings		1,460,688	-
Short-term provisions		202,656	145,018
Other current liabilities		20,280	23,273
Total Current Liabilities		3,167,298	1,556,786
Non-Current Liabilities			
Long-term borrowings		-	1,446,205
Other non-current liabilities		20,280	34,909
Total Non-Current Liabilities		20,280	1,481,114
Total Liabilities		3,187,578	3,037,900
Net Assets		80,349,533	59,776,327
Equity			
Issued capital	7	105,212,919	74,408,014
Reserves		3,376,797	3,013,967
Accumulated losses		(28,240,183)	(17,645,654)
Total Equity		80,349,533	59,776,327

The financial statements should be read in conjunction with the accompanying notes.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of HeartWare Limited					Total Equity
	Share Capital	Foreign Currency Translation Reserve	Share Option Reserve	Exercised Options Reserve	Accumulated Losses	
	\$	\$	\$	\$	\$	\$
Balance as at 1 January 2005	1,000	-	-	-	-	1,000
Currency translation	-	597,925	-	-	-	597,925
Net income recognised directly in equity	-	597,925	-	-	-	598,925
Loss for the period	-	-	-	-	(9,053,527)	(9,053,527)
Total recognised income and expense for the period	-	597,925	-	-	(9,053,527)	(8,454,602)
Shares issued	74,356,703	-	-	-	-	74,356,703
Employee share based compensation	-	-	1,587,370	52,981	-	1,640,351
Balance as at 30 June 2005 (AIFRS)	74,357,703	597,925	1,587,370	52,981	(9,053,527)	67,542,452
Balance as at 1 January 2006	74,408,014	639,616	2,239,927	134,424	(17,645,654)	59,776,327
Currency translation	-	(157,612)	-	-	-	(157,612)
Net income recognised directly in equity	-	(157,612)	-	-	-	(157,612)
Loss for the period	-	-	-	-	(10,594,529)	(10,594,529)
Total recognised income and expense for the period	-	(157,612)	-	-	(10,594,529)	(10,752,141)
Shares issued	30,804,905	-	-	-	-	30,804,905
Employee share based compensation	-	-	470,510	49,932	-	520,442
Balance as at 30 June 2006 (AIFRS)	105,212,919	482,004	2,710,437	184,356	(28,240,183)	80,349,533

The financial statements should be read in conjunction with the accompanying notes.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

	CONSOLIDATED	CONSOLIDATED
	30 June 2006	30 June 2005
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(9,696,056)	(4,827,372)
Interest received	388,357	271,969
Finance costs	(201)	(206)
Net cash flows used in operating activities	(9,307,900)	(4,555,609)
Cash flows from investing activities		
Proceeds from disposal of property plant and equipment	3,735	-
Purchase of property, plant and equipment	(897,937)	(912,357)
Payment for research and development	-	(1,716,197)
Payment for intangible assets	-	(85,812)
Cash assets acquired on acquisition of subsidiary	-	163,493
Net cash flows used in investing activities	(894,202)	(2,550,873)
Cash flows from financing activities		
Proceeds from issue of shares	32,825,695	32,448,918
Payments for share issue expenses	(2,020,790)	(2,092,215)
Net cash flows provided by financing activities	30,804,905	30,356,703
Net increase in cash held	20,602,803	23,250,221
Cash at the beginning of period	13,679,897	-
Effect of exchange rates on cash holdings in foreign currencies	(4,157)	71,087
Cash at the end of period	34,278,543	23,321,308

The financial statements should be read in conjunction with the accompanying notes.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2006

1. Basis of Preparation of Half-Year Financial Statements

The half-year consolidated financial statements ("Interim Financial Report") are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the 2005 Annual Report for the reporting period ended 31 December 2005 and any public announcements made by HeartWare Limited ("the Company") and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As this is the first interim financial report prepared under AIFRS, the accounting policies applied are inconsistent with those applied in the 2005 Annual Report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and AIFRS has been prepared and is set out in Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity controlled by the Company whereby the Company has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All controlled entities have a December financial year end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

For business combinations involving entities under common control, which are outside the scope of AASB 3: Business Combinations, the Company applies the purchase method of accounting by the legal parent.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2006

1. Basis of Preparation of Half-Year Financial Statements (Continued)

(b) Income Tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2006

1. Basis of Preparation of Half-Year Financial Statements (Continued)

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Leasehold improvements	33%
Plant and equipment	8-33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2006

1. Basis of Preparation of Half-Year Financial Statements (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(g) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

(h) Intangibles

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a definite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 10 to 20 years.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

1. Basis of Preparation of Half-Year Financial Statements (Continued)

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred.

Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

1. Basis of Preparation of Half-Year Financial Statements (Continued)

(j) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(m) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(n) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

2. First-time adoption of Australian Equivalents to International Financial Reporting Standards

The Company was registered on 26 November 2004 (i.e. prior to 1 January 2005) and therefore the financial report prepared for the 13-month period from registration to 31 December 2005 was prepared under Australian GAAP rather than AIFRS.

AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires that a reconciliation of equity reported under AGAAP to equity under AIFRS be prepared for the date of transition to AIFRS, where the date of transition is defined as the beginning of the earliest annual reporting period for which an entity presents full information under AIFRS as comparative information in its first AIFRS financial report.

The date of transition is therefore 1 January 2005. On this date the balance sheet comprised only \$1,000 of issued capital and receivables. As there is no difference in treatment from AGAAP to AIFRS, no reconciliation has been provided.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006

2. First-time adoption of Australian Equivalents to International Financial Reporting Standards
(Continued)

Reconciliation of Equity as at 30 June 2005

	Notes	Previous GAAP as at 30 June 2005 \$	Effect of transition to AIFRS \$	AIFRS as at 30 June 2005 \$
Current Assets				
Cash and cash equivalents		23,321,308	-	23,321,308
Trade and other receivables	(a)	72,289	1	72,290
Financial assets	(a)	12,030,310	512	12,030,822
Total Current Assets		35,423,907	513	35,424,420
Non-Current Assets				
Property, plant and equipment	(a)	1,086,154	14,709	1,100,863
Intangible assets	(a)	46,052,219	146,807	46,199,026
Total Non-Current Assets		47,138,373	161,516	47,299,889
Total Assets		82,562,280	162,029	82,724,309
Current Liabilities				
Trade and other payables		1,866,775	-	1,866,775
Short-term provisions	(a)	104,785	1,027	105,812
Other current liabilities		11,744,747	-	11,744,747
Total Current Liabilities		13,716,307	1,027	13,717,334
Non-Current Liabilities				
Long-term borrowings		1,431,788	-	1,431,788
Other non-current liabilities	(a)	32,342	393	32,735
Total Non-Current Liabilities		1,464,130	393	1,464,523
Total Liabilities		15,180,437	1,420	15,181,857
Net Assets		67,381,843	160,609	67,542,452
Equity				
Issued capital	(b)	73,770,262	587,441	74,357,703
Reserves	(a)(c)	437,316	1,800,960	2,238,276
Accumulated losses	(b)(c)	(6,825,735)	(2,227,792)	(9,053,527)
Total Equity		67,381,843	160,609	67,542,452



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006

2. First-time adoption of Australian Equivalents to International Financial Reporting Standards
(Continued)

Reconciliation of Equity as at 31 December 2005

	Notes	Previous GAAP as at 31 December 2005 \$	Effect of transition to AIFRS \$	AIFRS as at 31 December 2005 \$
Current Assets				
Cash and cash equivalents		13,679,897	-	13,679,987
Trade and other receivables	(a)	157,076	(22,484)	134,592
Financial assets	(a)	333,133	3,195	336,328
Total Current Assets		14,170,106	(19,289)	14,150,817
Non-Current Assets				
Property, plant and equipment	(a)	1,807,096	63,421	1,870,517
Intangible assets	(a)	46,151,664	641,229	46,792,893
Total Non-Current Assets		47,958,760	704,650	48,663,410
Total Assets		62,128,866	685,361	62,814,227
Current Liabilities				
Trade and other payables	(a)	1,410,980	(22,485)	1,388,495
Short-term provisions	(a)	139,639	5,379	145,018
Other current liabilities		23,273	-	23,273
Total Current Liabilities		1,573,892	(17,106)	1,556,786
Non-Current Liabilities				
Long-term liabilities		1,446,205	-	1,446,205
Other non-current liabilities		34,909	-	34,909
Total Non-Current Liabilities		1,481,114	-	1,481,114
Total Liabilities		3,055,006	(17,106)	3,037,900
Net Assets		59,073,860	702,467	59,776,327
Equity				
Issued Capital	(b)	73,820,573	587,441	74,408,014
Reserves	(a)(c)	(62,851)	3,076,818	3,013,967
Accumulated losses	(b)(c)	(14,683,862)	(2,961,792)	(17,645,654)
Total Equity		59,073,860	702,467	59,776,327



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

**2. First-time adoption of Australian Equivalents to International Financial Reporting Standards
(Continued)**

Reconciliation of Loss for the Half-Year Ended 30 June 2005

	Notes	\$
Net loss in accordance with AGAAP		(6,825,735)
Effect of adoption of AIFRS:		
Listing expenses	(b)	(587,441)
Options	(c)	(1,640,351)
Net loss under AIFRS		(9,053,527)

Reconciliation of Loss for the Year Ended 31 December 2005

	Notes	\$
Net loss in accordance with AGAAP		(14,683,862)
Effect of adoption of AIFRS:		
Listing expenses	(b)	(587,441)
Options	(c)	(2,374,351)
Net loss under AIFRS		(17,645,654)

As the Company was incorporated on 26 November 2004 (and in accordance with the requirements of the *Corporations Act 2001*), the Company's first interim financial report was for the 6 month period ended 31 May 2005 (rather than 30 June 2005). However, under AIFRS the comparative information presented in this interim financial report is for the half-year ended 30 June 2005. Consequently, the net loss in accordance with AGAAP of \$6,825,735 does not equate to the 31 May 2005 interim financial report.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

**2. First-time adoption of Australian Equivalents to International Financial Reporting Standards
(Continued)**

Notes to the Reconciliations of Equity and Loss as at 30 June 2005 and 31 December 2005

	CONSOLIDATED	CONSOLIDATED
	30 June 2006	30 June 2005
	\$	\$
(a) The movement in assets and liabilities in the balance sheet relates to the adoption of AASB 121: The Effects of Changes in Foreign Exchange Rates. Previously the assets and liabilities of integrated operations were translated using temporal rates, with exchange differences being recorded in the income statement. Under AASB 121, the assets and liabilities of foreign operations are translated at the exchange rate prevailing at reporting date, with exchange differences arising on translation being recognised in the foreign currency translation reserve.	702,467	160,609
(b) Under previous AGAAP all costs relating to the initial public offering were deemed to be directly attributable to the raising of new capital and hence were treated as a reduction of equity. Under AIFRS, some of these costs are deemed to relate to the listing and not specific to the raising of capital. Hence there is an increase in share capital, with a corresponding reduction in retained earnings.	(587,441)	(587,441)
(c) Under AASB 2: Share-based Payments, the Company has recognised an expense for all share-based remuneration, including deferred shares and options, which have been fair valued and expensed over the relevant vesting periods.	2,374,351	1,640,351

	CONSOLIDATED	CONSOLIDATED
	30 June 2006	30 June 2005
	\$	\$
3. Revenue		
Foreign exchange gains	939,342	709,523
Interest received	376,420	348,250
Gain on sale of property plant and equipment	3,130	-
	<u>1,318,892</u>	<u>1,057,773</u>



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2006**

4. Loss from ordinary activities before income tax has been determined after: CONSOLIDATED CONSOLIDATED

	30 June 2006	30 June 2005
	\$	\$
Depreciation of property plant and equipment	177,602	77,282
Amortisation of intangible assets	1,293,193	1,181,896

There were no capitalised research and development costs recognised during the period ended 30 June 2006 (2005 : \$1,716,197) in accordance with the Company's policy on research and development.

5. Segment reporting

The Company's primary reporting segment is geographical. The Company operates in two geographical segments, being Sydney, Australia and Miami, United States of America.

Half-Year June 2006	Sydney, Australia \$000	Miami, USA \$000	Economic Entity \$000
Total Segment Revenue:			
Revenue from ordinary activities	1,299,680	19,212	1,318,892
Segment Result:			
Profit from ordinary activities before income tax expense	(2,451,478)	(7,259,181)	(10,594,529)

Half-Year June 2005

Total Segment Revenue:			
Revenue from ordinary activities	1,053,032	4,741	1,057,773
Segment Result:			
Profit from ordinary activities before income tax expense	(3,680,042)	(4,489,695)	(9,053,527)

The Company operates in one business segment, being the development of a range of implantable circulatory assist devices, or "heart pumps".



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2006

6. Income Tax Expense

Potential deferred tax assets will only be obtained in certain limited circumstances. Specifically, a deferred tax asset cannot be obtained unless:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the *Income Tax Assessment Act 1997*;
- (ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

At the date of this Interim Financial Report, HeartWare and its controlled entities do not have revenues or profit which would be sufficient to allow deferred tax assets to be accrued with a substantial degree of certainty. As such, no tax calculation or deferred tax asset has been provided for in this Interim Financial Report. This issue will be closely monitored as the Company moves toward the commercialisation of its range of implantable circulatory assist devices.

7. Issued Capital

30 June 2006
\$

Issued and paid-up capital

186,042,097 ordinary shares, fully paid

105,212,919

Movements during the period	Note	Issue Price	No. of Shares	\$
Opening balance – 1 January 2006			156,096,274	74,408,014
Private Placement of Shares – 23 May 2006		\$1.10	29,679,220	32,647,142
Share Issue Pursuant to HeartWare Limited Shareholder Share Purchase Plan – 15 June 2006		\$1.10	75,452	82,977
Exercise of Options under the Company's Employee Share Option Plan – 30 June 2006		\$0.50	191,151	95,576
Issue costs	(a)		-	(2,020,790)
Total			186,042,097	105,212,919

Notes:

- (a) Issue costs refer to those costs incurred by the Company in connection with the Company's private placement (referred to above).



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2006

8. Contingent Liabilities

As set out in the Company's prospectus (dated 17 December 2004), the economic entity has the following contingent liabilities resulting from the acquisition by HeartWare, Inc. of a business that previously held the Company's technology:

- (a) A milestone payment of US\$750,000 when the first circulatory assist device is approved for sale in Europe, provided that the Company has a least US\$15,000,000 in cash on hand;
- (b) A milestone payment of US\$1,250,000 when the first circulatory assist device is approved for sale in the US, provided that the Company has at least US\$25,000,000 in cash on hand; and
- (c) A special payment of up to US\$500,000 upon a sale of HeartWare, Inc. if such sale generated proceeds in excess of the aggregate liquidation preferences of all of HeartWare, Inc.'s then outstanding preferred stock.

Except as stated above, the Company has received no written notice of any claim against the HeartWare Group which could be properly categorised as a "contingent liability" for the purposes of Australian Accounting Standards.

9. Subsequent Events

Since the end of the half-year (and as noted in the Half Year Report), the Company has confirmed that it has received regulatory approval to commence implants of its HVADTM left ventricular device in Germany.

Except as disclosed above, there have been no events subsequent to the reporting date that would have an effect on the financial report.

10. Non-Cash Financing And Investing Activities

There has been no non-cash financing and investing activities in the half year to 30 June 2006.



**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

The Directors of HeartWare Limited declare that:

1. The financial statements and notes, as set out on pages 3 to 20:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the economic entity's financial position as at 30 June 2006 and of its performance for the half year ended on that date.
2. 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.

Signed in accordance with a resolution of the Board of Directors:

**Rob Thomas
Chairman
HeartWare Limited**

DATED: 31 July 2006



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of HeartWare Limited ("Company"), being the Company and its controlled entities, for the half year ended 30 June 2006.

DIRECTORS

The names of directors who held office during or since the end of the half year are as follows:

Robert Thomas, Non-Executive Chairman - director since 26 November 2004
Seth Harrison, MD, Non-Executive Deputy Chairman - director since 26 November 2004
Stuart McConchie, CEO - director since 26 November 2004
Christine Bennett, MB, Non-Executive Director - director since 15 December 2004
Denis Wade AM, MB, D.Phil., Non-Executive Director - director since 15 December 2004

REVIEW OF OPERATIONS

The Review of Operations is contained on Page 2 of the Half Year Report provided in accordance with ASX Listing Rule 4.2A.3.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

The adoption of Australian equivalents to International Financial Reporting Standards ("IFRS") is a fundamental change to the reporting requirements within Australia. Further, this Interim Financial Report is the first interim financial report that has been prepared by the Company under Australian equivalents to IFRS.

Accordingly, the Directors recommend that readers of this Interim Financial Report review the accounting policies adopted by the Company including the reconciliations of equity and profit and loss between previous Australian GAAP and Australian equivalents to IFRS that are contained in Note 2 to the Interim Financial Report.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 23 for the half year ended 30 June 2006 and forms part of this report.

Signed in accordance with a resolution of the Board of Directors:

Rob Thomas
Chairman
HeartWare Limited

Date: 31 July 2006

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF HEARTWARE LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of HeartWare Limited for the half-year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON NSW
Chartered Accountants



M A ADAM-SMITH
Partner

Sydney

31 July 2006

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF HEARTWARE LIMITED

Scope

The half-year financial report and directors' responsibility

The half-year financial report comprises comprising the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement, notes to the financial statements and the directors' declaration for the consolidated entity, for the half-year ended 30 June 2006. The consolidated entity comprises both the HeartWare Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the half-year financial report 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 half-year financial report.

Review approach

We conducted an independent review of the half-year 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 half-year financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the half-year financial report with the Australian Securities & Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. 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 provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian Professional ethical pronouncements and the Corporations Act 2001.

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**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF HEARTWARE LIMITED (cont)**

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 HeartWare Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



GRANT THORNTON NSW
Chartered Accountants



M A ADAM-SMITH
Partner

Sydney

31 July 2006