

Appendix 4D
Half Year Report
Medical Australia Limited

ABN 30 096 048 912
For the half-year ended 31 December 2009

Results for announcement to the market

| | | | | |
|---|------|------|----|-----------|
| | | | | \$ |
| Revenue from ordinary activities | down | 5% | To | 3,902,991 |
| Loss from ordinary activities attributable to members | up | 109% | To | 726,351 |
| Net loss for the period attributable to members | up | 109% | To | 726,351 |
| | | | | |

| Dividends (Distributions) | Amount per security | Franked amount per security |
|--------------------------------------|---------------------|-----------------------------|
| | | |
| Final Dividend | Nil | N/A |
| Interim Dividend | Nil | N/A |
| | | |
| Previous corresponding period | | |
| | | |
| Final Dividend | Nil | N/A |
| Interim Dividend | Nil | N/A |
| | | |

| | |
|---|-----|
| Record Date for determining entitlements to dividends | N/A |
|---|-----|

| | |
|---|---------------------|
| Brief explanation of the figures reported above and short details of any bonus or cash issue or other items of importance not previously reported to the market | See Attached report |
|---|---------------------|

| NTA Backing | Current period | Previous corresponding period |
|--|----------------|-------------------------------|
| Net Tangible Asset backing per ordinary security | (0.45) cent | (0.3) cent |



MEDICAL AUSTRALIA LIMITED

A.B.N. 30 096 048 912

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2009**

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

C o r p o r a t e D i r e c t o r y

DIRECTORS

Mr Thomas J. Mann (Chairman)

Mr Gary L. Lewis (Managing Director)

Mr Ian Mitchell

Dr Geoff Cumming

COMPANY SECRETARY

Mr Ian Mitchell

REGISTERED OFFICE

Level 11, 37 Bligh Street

SYDNEY NSW 2000 Australia

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PRINCIPAL OFFICE

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AUDITORS

Gould Ralph Assurance

Level 42, Suncorp Place

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SYDNEY NSW 2000

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SHARE REGISTRAR

Gould Ralph Pty Ltd

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**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

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**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Directors Report
For the half-year ended 31 December 2009**

Your directors submit their report together with the consolidated financial report of the Group, being Medical Australia Limited and its controlled entities, for the half-year ended 31 December 2009, and the auditor's review report thereon.

Directors

The names of directors of the Company holding office at any time during or since the financial period are:

| | |
|-----------------------------------|---------------------------------|
| Thomas J. Mann (Chairman) | Director since 17 February 2006 |
| Gary L. Lewis (Managing Director) | Director since 24 November 2006 |
| Ian Burnham Mitchell | Director since 6 November 2008 |
| Dr. Geoff Cumming | Director since 23 January 2009 |

Review of Operations

Medical Australia Limited is a medical company engaged in the manufacture, distribution and sale of a broad range of medical devices used by acute and primary healthcare facilities in Australian and global markets. The Company focuses on three core clinical therapy areas within the broader medical devices market – medication delivery (intravenous (IV) systems); reuse prevention; and surgical and anaesthesia products.

Medical Australia manufactures for an international customer base comprising public and private hospitals, defence forces, non-government aid organisations and government departments and critical care services. In addition, the company's expertise in medical device sourcing and outsourced manufacturing has resulted in significant OEM sales to major international medical device companies.

Financial Review

The consolidated result for the six months to 31 December 2009 records revenues of \$3,902,991, which were 5% down on the corresponding period last year. The reason for this marginal revenue decline was out-of-stocks resulting from the transition of the Company's supply chain out of Thailand into state of the art manufacturing facilities in China.

Gross profit margins for the period increased to 54.1%, (2008: 51%), highlighting the benefits of the supply chain strategy being realised. Included in cost of goods sold was inventories written down with a carrying value of \$83,819, which related to identified slow moving and redundant stocks. Also included were airfreight costs, which were well above the average cost of shipping, further adversely impacting on margins. As a result of the above, gross profit margins are expected to further improve in the second half of the year.

Operating expenses for the period increased by \$340,193 over the same period last year, primarily due to increases in employee expenses resulting from the Clements acquisition. Additional cost savings have been identified, which will bring year-end expenses into line with 2008 levels.

The consolidated entity recorded a loss for the period of \$726,351 (2008 – loss \$347,966). It is important to note that the Operating entity, i.e. BMDI TUTA Healthcare Pty Limited is now operating profitably when adjusted for abnormal expenses and costs attributable to the parent company, i.e. Medical Australia Limited.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Directors Report
For the half-year ended 31 December 2009**

Operational Review

In the opinion of the directors, significant changes that occurred during the half-year ended 31 December 2009 were as follows:

- Integration of Clements operations
- Reorganisation and restructure of Management team
- Rationalisation of inventory and supply chain initiatives
- Development of international distributorships
- Global licensing and distribution agreement with Analytica Limited

During the six months to 31 December 2009, the Company entered the final phase of its restructure and integration of its product-sourcing model. This culminated in the review and rationalisation of the entire product range with the establishment of inventory write-downs for identified redundant, slow moving finished goods. The results of this rationalisation and supply chain model are seen in the increased gross profit margins, rising from 51% to 54%. Further increases in margins are expected as a more sophisticated planning and forecasting system will lead to increased freight savings.

Other key achievements of the past six months have been the re-building of the Company's Quality System and development and launch of new products and brands. The importance of all three initiatives should not be underestimated in their impact on the future development of the business.

- As a result of capacity and quality concerns within parts of the Medical Australia supply chain, the Company embarked on a systematic review and audit of suppliers across Asia and the Sub Continent. This evaluation was based on an assessment of quality systems, management capability and cost. As a result of this review, new supply partners have been selected to augment the existing Medical Australia supply chain.
- Running in parallel to the expansion of the supply chain, the Company has also re-built its Quality System. As a result, Medical Australia Limited successfully completed two Therapeutic Goods Administration (TGA) audits and a CE Mark audit, with the latter allowing for the ongoing export for goods into the UK and EU.

As a result of the initiatives outlined above, Medical Australia is now well positioned to trade profitability and focussed on achieving sales growth and operating profits. Future strategies for the Company will continue to focus on expanding the product portfolio within the three key clinical areas identified above; moving forward with its push of the TUTA brand into global markets, particularly in the UK and North America; and pursuing an aggressive roll-up acquisition strategy, targeting companies and product offerings in line with its strategic plan, and that will be EPS accretive.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

D i r e c t o r s R e p o r t
F o r t h e h a l f - y e a r e n d e d 3 1 D e c e m b e r 2 0 0 9

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half year ended 31 December 2009.

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.



Gary L. Lewis
Managing Director

Dated this 26th day of February 2010

Chartered Accountants

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Australia

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26 February 2010

The Board of Directors
Medical Australia Limited
Level 17, 275 Alfred Street
North Sydney, NSW 2060

**LEAD AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001**

TO THE DIRECTORS OF MEDICAL AUSTRALIA LIMITED

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2009 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

GOULD RALPH ASSURANCE
Chartered Accountants



GREGORY C RALPH, M.COM, FCA
Partner

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Statement of Comprehensive Income
For the half-year ended 31 December 2009**

| | | Consolidated 31 December 2009 | Consolidated 31 December 2008 |
|---|--------------|--|--|
| | Notes | \$ | \$ |
| Revenue from sale of goods | | 3,902,991 | 4,112,232 |
| Cost of goods sold | | <u>(1,790,773)</u> | <u>(1,999,743)</u> |
| Gross profit | | 2,112,218 | 2,112,489 |
| Expenses: | | | |
| - administration and consultants | | (312,831) | (232,674) |
| - depreciation | | (70,686) | (34,639) |
| - employee expenses | | (1,735,444) | (1,473,043) |
| - travel and accommodation | | (140,455) | (166,063) |
| - occupancy costs | | (164,700) | (244,796) |
| - advertising and marketing | | (9,388) | (74,659) |
| - other | | <u>(291,557)</u> | <u>(158,994)</u> |
| Results from operating activities | | <u>(612,843)</u> | <u>(272,379)</u> |
| Financial income | | 4,529 | 3,917 |
| Financial expense | | <u>(118,037)</u> | <u>(79,504)</u> |
| Net financing Loss | | <u>(113,508)</u> | <u>(75,587)</u> |
| Loss before related income tax expense | 4 | (726,351) | (347,966) |
| Income tax expense | | <u>-</u> | <u>-</u> |
| Loss for the period | | <u>(726,351)</u> | <u>(347,966)</u> |
| Basic loss per share attributable to ordinary shareholders | | <u>(0.28) cents</u> | <u>(0.19) cents</u> |
| Diluted loss per share attributable to ordinary shareholders | | <u><u>(0.28) cents</u></u> | <u><u>(0.19) cents</u></u> |

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Statement of Financial Position
As at 31 December 2009**

| | | Consolidated 31 December 2009 | Consolidated 30 June 2009 |
|--------------------------------------|--------------|--|--------------------------------------|
| | Notes | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 246,482 | 699,849 |
| Trade and other receivables | | 1,010,789 | 1,441,933 |
| Inventories | | 1,311,186 | 1,304,162 |
| Prepayments | | 18,974 | - |
| TOTAL CURRENT ASSETS | | 2,587,431 | 3,445,944 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | | 386,442 | 371,528 |
| Intangibles | 7 | 4,431,452 | 4,368,632 |
| TOTAL NON-CURRENT ASSETS | | 4,817,894 | 4,740,160 |
| TOTAL ASSETS | | 7,405,325 | 8,186,104 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 2,422,398 | 2,671,003 |
| Provisions | | 176,528 | 69,020 |
| Interest bearing loans & borrowings | | 1,425,814 | 519,795 |
| TOTAL CURRENT LIABILITIES | | 4,024,740 | 3,259,818 |
| NON-CURRENT LIABILITIES | | | |
| Interest bearing loans & borrowings | | 108,000 | 1,108,000 |
| Provisions | | 6,891 | 2,650 |
| TOTAL NON-CURRENT LIABILITIES | | 114,891 | 1,110,650 |
| TOTAL LIABILITIES | | 4,139,631 | 4,370,468 |
| NET ASSETS | | 3,265,694 | 3,815,636 |
| EQUITY | | | |
| Issued capital | 5 | 15,200,018 | 15,029,018 |
| Options reserve | | 91,612 | 86,203 |
| Accumulated losses | | (12,025,936) | (11,299,585) |
| TOTAL EQUITY | | 3,265,694 | 3,815,636 |

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Statement of Changes in Equity
For the half year ended 31 December 2009

| | Issued Capital | Reserves | Accumulated Losses | Total |
|---------------------------------------|-------------------|---------------|-----------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Balance at 1 July 2008 | 12,849,508 | 86,203 | (9,109,204) | 3,826,507 |
| Loss for the period | - | - | (347,966) | (347,966) |
| Balance as at 31 December 2008 | <u>12,849,508</u> | <u>86,203</u> | <u>(9,457,170)</u> | <u>3,478,541</u> |
| Balance as at 1 July 2009 | 15,029,018 | 86,203 | (11,299,585) | 3,815,636 |
| Equity contributions during the year | 231,000 | - | - | 231,000 |
| Cost of share based payments | - | 5,409 | - | 5,409 |
| Share issue costs | (60,000) | - | - | (60,000) |
| Loss for the period | - | - | (726,351) | (726,351) |
| Balance as at 31 December 2009 | <u>15,200,018</u> | <u>91,612</u> | <u>(12,025,936)</u> | <u>3,265,694</u> |

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Statement of Cash Flows
For the half-year ended 31 December 2009**

| Notes | Consolidated 31 December 2009 \$ | Consolidated 31 December 2008 \$ |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 4,293,256 | 3,904,405 |
| Cash paid to suppliers and employees | (4,638,992) | (4,362,380) |
| Cash generated (used in) operations | (345,736) | (457,975) |
| Interest received | 4,581 | 3,917 |
| Interest Paid | (30,879) | (79,504) |
| Net cash used in operating activities | (372,034) | (533,562) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for plant and equipment | (138,352) | (53,694) |
| Net cash used in investing activities | (138,352) | (53,694) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | 151,000 | - |
| Proceeds / (Repayments) of borrowings | (60,000) | 108,000 |
| Net cash provided by financing activities | 91,000 | 108,000 |
| Net decrease in cash held | (419,386) | (479,256) |
| Cash and cash equivalents at beginning of period | 240,054 | 292,742 |
| Effect of exchange rate adjustments on cash held | - | (52,988) |
| Cash and cash equivalents at the end of period | (179,332) | (239,502) |

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the half-year financial statements

1. Reporting Entity

Medical Australia Limited (the 'Company') is a company domiciled in Australia. The interim financial report of the Company for the half year ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as the 'Group'). The consolidated annual financial report of the Group as at and for the year ended 30 June 2009 is available upon request from the Company's registered office at Level 11, 37 Bligh Street, Sydney NSW 2000 or at www.bmdituta.com.

This interim financial report was approved by the Board of Directors on 26 February 2010.

2. Going Concern

The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has incurred trading losses of \$726,351 in the half-year ended 31 December 2009 and has accumulated losses of \$12,025,936 as at 31 December 2009. At that date, the Company had a net current liability position of \$1,437,309. Included in this amount is a \$1,000,000 loan payable to Pacific Devices Pty Ltd which matures on 1 August 2010. These conditions give rise to a material uncertainty that may cast significant doubt upon the Company's and the Group's ability to continue as a going concern. The ongoing operation of the Company and the Group is dependent upon:

- the Company raising additional funding from shareholders or external parties and / or
- the Group achieving cash flow positive trading operations in the coming twelve months and / or
- the renegotiation and or repayment of the \$1,000,000 debt owing to Pacific Devices Pty Ltd

The directors have prepared cash flow projections that support the ability of the Company and the Group to continue as a going concern. These cashflow projections assume significant increases in revenues compared to historical levels achieved and raising additional funding from shareholders and external parties.

In the event that the Company and the Group do not obtain additional funding and/or achieve cash flow positive trading operations, they will be unable to continue their operations as a going concern and therefore the Company and the Group may not be able to realise their assets and extinguish their liabilities in the ordinary course of operations and at the amounts stated in the financial statements. The financial effects which could potentially result from the group not continuing as a going concern and accordingly requiring the group to realise its assets outside the normal course of operations have not been recognised in this half yearly report.

3. Statement of Compliance

The half-year consolidated financial report has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non current assets.

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 statement of comprehensive income, statement of financial position and financing and investing activities of the economic entity as a full financial report.

This half-year report should be read in conjunction with the Annual Financial Report of Medical Australia Limited as at 30 June 2009 and any public announcements made by Medical Australia Limited and its controlled entities during the half-year ended 31 December 2009, in accordance with the continuous disclosure obligations arising under the Corporation Act 2001.

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2009.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

4. Loss for the Period

| | 31 December 2009 | 31 December 2008 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| The following expense items have been included in the financial performance for the half year end: | | |
| Legal expenses relating to dispute with former supplier | 127,807 | - |
| Write-down for slow moving and redundant inventory | 83,819 | - |
| | <u>211,626</u> | <u>-</u> |

| | Consolidated 31 December 2009 | Consolidated 30 June 2009 |
|--|--|--------------------------------------|
| | \$ | \$ |
| 5. Issued and paid up capital | | |
| 260,010,821 (30 June 2009 - 252,977,488) | | |
| ordinary shares, fully paid | <u>15,200,018</u> | <u>15,029,018</u> |

During the period the Company issued the following shares:

- 5,033,333 fully paid ordinary shares at \$0.03 per share in November 2009.
- 1,500,000 deemed fully paid shares in consideration of fund raising services, issue date 17 September 2009, valued at 4 cents per share
- 500,000 shares deemed fully paid shares as part of an employment contract, issue date 17 September 2009, valued at 4 cents per share.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

No dividends were declared during the half year.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

6. Financial Reporting by Segment

The Group operates wholly within the health care industry in Australia, New Zealand, and Asia.

| Geographical segments | Australia | New Zealand | Asia | Unallocated | Consolidated |
|--|------------------|--------------------|-------------|--------------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ |
| 31 December 2009 | | | | | |
| Revenue | | | | | |
| External segment income | 3,581,233 | 170,930 | 148,655 | 2,173 | <u>3,902,991</u> |
| Result | | | | | |
| Segment result | 1,896,318 | 114,694 | 99,748 | 1,458 | 2,112,218 |
| Expenses | (2,604,561) | (124,314) | (108,114) | (1,580) | <u>(2,838,569)</u> |
| Net loss | | | | | <u>(726,351)</u> |
| Assets | | | | | |
| Segment assets | 7,405,325 | - | - | - | <u>7,405,325</u> |
| Including non-current assets acquired during the year: | | | | | |
| Plant and equipment | 138,352 | - | - | - | 138,352 |
| | <u>138,352</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>138,352</u> |
| Segment liabilities | <u>4,139,631</u> | <u>-</u> | <u>-</u> | | <u>4,139,631</u> |
| Geographical segments | Australia | New Zealand | Asia | Unallocated | Consolidated |
| | \$ | \$ | \$ | \$ | \$ |
| 31 December 2008 | | | | | |
| Revenue | | | | | |
| External segment revenue | 3,536,612 | - | 220,842 | 354,778 | <u>4,112,232</u> |
| Result | | | | | |
| Segment result | 1,728,788 | - | (35,273) | 1,617 | 1,695,132 |
| Expenses | (1,757,110) | - | (109,722) | (176,266) | <u>(2,043,098)</u> |
| Net loss | | | | | <u>(347,966)</u> |

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

**6. Financial Reporting by
Segment (Cont)**

| | Australia | New Zealand | Asia | Unallocated | Consolidated |
|---|-----------|----------------|------|-------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | |
| Segment assets | 8,186,104 | - | - | - | 8,186,104 |
| Including non-current assets acquired during the year: | | | | | |
| Plant and equipment | 53,694 | - | - | - | 53,694 |
| | 53,694 | - | - | - | 53,694 |
| Segment liabilities | 4,370,468 | - | - | - | 4,370,468 |

Division of the Group's results and assets into geographical segments has been ascertained by direct identification of assets and revenue cost centres. There are no intersegment revenue transactions and the major products are IV systems, safety, blood banking, surgical and anaesthesia products.

7. Intangibles Assets

The Group has adopted a policy of capitalising Product Development Costs related to specific projects, in accordance with AASB 138. Intangible asset costs are amortised on a straight line basis over the useful life of the product. As at 31 December 2009, specific Product Development Costs capitalised as intangible assets had a carrying value of \$320,736 (30 June 2009 – \$257,917). Other intangible assets comprised goodwill on acquisition of the Tuta business, with a carrying value of \$3,409,564 (30 June 2009: \$3,409,564) and goodwill on the acquisition of the Clements business with a carrying value of \$701,150 (2008: \$Nil).

8. Financing arrangements

During the period the Group had an overdraft facility with National Australia Bank Ltd with a \$500,000 limit. At 31 December 2009, \$425,814 (June 2009 - \$459,795) had been utilised.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

9. Contingent Assets

a) The group is in dispute with a former supplier in Thailand regarding a claim of \$390,000 for goods manufactured and supplied. Whilst the liability has been recognised in the financial statements as a trade payable in full, the directors believe the amount owing to the supplier should be offset by product charges, travel and freight costs incurred by the group in connection with the supply. The directors believe they will be successful in claiming these offsets, however as the amount cannot be measured reliably at the date of this report and is subject to litigation, no amount has been recognised in the financial statements for this contingent asset. The Company is defending proceedings which are due to be heard in the Supreme Court of NSW in the first half of 2010.

b) Separately, the group is claiming damages against two parties, the former supplier referred above and a competitor, with respect to breaches of confidentiality, non-compete and passing off BMDi products. The claim relates to products with the BMDi trade mark being imported and sold in Australia. The claim covers loss of market share, loss of profits, and other matters. The quantum of these claims has not been recognised in the financial statements as the amounts of the claim cannot be measured reliably as at the date of this financial report. The court case is not expected to be heard until the middle of 2010.

10. Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

11. Related Parties

There have been no significant changes to the related party transactions as disclosed in the 30 June 2009 Annual Report. All transactions with related parties are conducted on normal commercial terms and conditions.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

D i r e c t o r s ' D e c l a r a t i o n

In the opinion of the Directors of Medical Australia Limited ('the Company'):

- (a) the financial statements and notes set out on pages 6 to 14, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the financial half-year ended on that date; and
 - (ii) complying with Australian Accounting Standards, (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.
- (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 26th day of February 2010

in accordance with a resolution of the Board of Directors:



Gary L. Lewis
Managing Director

**Independent Review Report To the members of
Medical Australia Limited**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medical Australia Limited and the entities it controlled during the half year, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors Responsibility on the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements - ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Medical Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

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

- (a) giving a true and fair view of the consolidated entities financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualification to the conclusion expressed above, we draw your attention to Note 2 'Going Concern' in the financial report which advises that the Group incurred a loss of \$726,351 for the period ended 31 December 2009 and has accumulated losses of \$12,025,936 and net current asset deficiency of \$1,437,309 as at 31 December 2009. Whilst management have prepared cash flow forecasts indicating increased sales and additional capital raisings, inherently there is significant uncertainty as to whether the economic entity will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

GOULD RALPH ASSURANCE
Chartered Accountants



GREGORY C. RALPH M.Com., F.C.A.
Partner
Sydney

Dated this 26th day of February 2010