



MEDICAL AUSTRALIA LIMITED

A.B.N. 30 096 048 912

**ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2011**

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Corporate Directory

DIRECTORS

Mr Thomas Hartigan (Chairman)

Mr Mark Donnison (CEO)

Mr Ian Mitchell

Dr Geoff Cumming

COMPANY SECRETARY

Mr Ian Mitchell

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CHAIRMAN'S LETTER

The financial results for FY 2011 have shown that the Company has made large strides during the past 12 months. The Company has reduced its Net Loss After Tax from \$1.3m in FY10 to \$343k in FY11 even after absorbing one-off costs such as legal fees and acquisitions deposit write-off.

At the Board level, there were a couple of changes made during the year. Mr. Gary Lewis stepped down as Non-Executive Director and Mr Mark Donnison was appointed as Managing Director on the 30th June 2011. I would like to take this opportunity to thank Gary on his significant contribution to the business as the previous Managing Director and more recently as a Non Executive Director and at the same time, welcome Mark as Managing Director and look forward to his input in providing greater shareholder value.

The initiatives of the previous 12 months such as improvement in our supply chain and expanding into international markets have provided MLA with a good growth platform for the upcoming financial year. For instance, the supplier agreements with Medivet and Smith & Nephew will provide an opportunity to transform the business focused on human health to a global business that has appeal to the animal healthcare sector as well.

The Board with the aid of Management are striving to increase revenue and improve profitability in FY12 and to deliver strong shareholder returns in the process.

Signed at Sydney this 30th day of September 2011



Tom Hartigan
Non-Executive Chairman

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

OPERATING AND FINANCIAL REVIEW

Chief Executive Officer's Review

Financial Year 2011 has been a year of significant achievement for Medical Australia Limited (MLA), and the management team is confident that the foundation is now in place to fast track growth, and transform MLA into a profitable medical device and product manufacturing and distribution company.

Revenue for the year rose to \$8.8 million and the company reported gross profit of \$4.9 million, compared to \$4.3 million in the prior year. Following a number of one-off costs associated with MLA's restructuring, the company recorded a net loss of \$343k.

Laying the foundation for future growth

A dramatic reduction in Net Loss After Tax of approximately \$1m from prior year is a clear indication that MLA is well and truly in the growth phase of its life cycle. The improvement in profitability in spite of one-off costs is a creditable achievement. The plan to be profitable in FY12 is highest on the agenda for the board and management.

Supply chain

This has continued to be a focus for MLA this year. The Company's partnership with leading US medical products manufacturer Amsino Medical, has provided the company with the ability to provide quality products to our customers wherever they may be. A high level of resources have been invested in order to provide an efficient supply chain system and it is envisaged that the results of these strategies will come to fruition in FY12.

Quality Systems

MLA has successfully completed the CE Mark audit (both in Australia and at Amsino's premises) which allows the company to continue exporting and expanding the distribution of its products to the United Kingdom and Europe.

International markets

The growth in international markets has continued during FY11 with a focus on the Asia-Pacific region and USA. In FY11, the international sales made up 16% of total sales which was higher than the previous year (14%). It is envisaged that international sales will grow rapidly.

Management team

There have been some changes to the management team in FY11. Mr Greg Lewis resigned as Chief Financial Officer in March 2011 and was replaced by Mr Suraj Sethuram as General Manager, Finance & Administration in June 2011. Mr Sethuram brings widespread experience in financial management and change management from industries including manufacturing, FMCG, print management and outdoor advertising.

Each member of the management team are empowered to create value in their departments with the overall objective of delivering enhanced profitability. All our actions are based on satisfying key stakeholder interests and ensuring that they receive the best possible product or service in the market.

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OPERATING AND FINANCIAL REVIEW

The management team is focused on exploiting our core competencies and addressing our weaknesses in order to deliver value to our shareholders. This has included a review of our mission and values and to align them to our business strategy and practices.

Financial platform

The financial position in FY11 has been the strongest in the Company's history. The reduction in Net Loss After Tax by \$1m from the previous financial year, an improvement in Net Current Assets of \$1.3m and a satisfactory cash position at year end (with more cash injected through exercise of the options before 14th July 2011) has meant that MLA has the capacity to implement its strategic objectives to deliver greater shareholder value. In the next 12 months, the Company will aim to generate more cash and pay down outstanding debt as much as possible.

Outlook

MLA has entered into various supply agreements including Unicef and Smith & Nephew post 30 June 2011 which greatly enhances the Company's profitability.

The Board is grateful for the hard work and dedication of MLA's team during the year, and for the continued support of our customers. We are confident that MLA is now poised for growth.

Signed at Sydney this 30th day of September 2011

A handwritten signature in black ink, appearing to be 'Mark Donnison', written in a cursive style.

Mark Donnison

Chief Executive Officer

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

STATEMENT OF CORPORATE GOVERNANCE

The Directors of Medical Australia Limited ("MLA") are responsible for the corporate governance of the Medical Australia Group ("Group"). The Board guides and monitors the business and affairs of Medical Australia on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company and its main corporate governance practices are applicable to all subsidiaries and are summarised below.

1. Compliance with ASX best practice recommendations

The ASX Listing Rules require a statement in a listed company's Annual Report which discloses the extent to which the ASX 32 best practice recommendations have been followed in the reporting period. As a listed company, Medical Australia must identify those recommendations which have not been followed and provide reasons for non-compliance.

This Statement sets out in detail the Company's compliance with the ASX Corporate Governance Council's best practice recommendations. The Company considers that its practices comply with 29 of the ASX best practice recommendations as at 30 June 2011. The 3 ASX best practice recommendations which are not followed relate to gender diversity. These best practice recommendations will be implemented in FY12 as a matter of course. A checklist summarising this is set out in section 8 of this Statement.

2. The Board of Directors

(a) Membership

The Board has a range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, including details of director backgrounds is contained within the Directors Report.

ASX Recommendation 2.6

The Company's Constitution requires a minimum of 3 directors and a maximum of 9 directors. As at 30 June 2011, there were three non-executive Directors and one executive director, in conformity with the Company's policy that the Board has a majority of non-executive directors. The Chairman, Mr Hartigan, is a non-executive director. The terms and conditions of appointment and retirement of directors are set out in the Company's Constitution. The Board believes that its membership should have enough directors to serve on various committees of the Board without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

(b) Board role and responsibilities

The Board is responsible to shareholders and investors for the Group's overall corporate governance.

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STATEMENT OF CORPORATE GOVERNANCE

2. The Board of Directors (Continued)

The Board has established and approved a Board Charter. Under this Charter the Board is responsible for:

- Considering and approving the corporate strategies proposed by the Managing Director and monitoring their implementation;
- Approving, overseeing and monitoring financial and other reporting to shareholders, investors, employees and other stakeholders of the Company;
- Ensuring that the Company has the appropriate human, financial and physical resources to execute its strategies;
- Appointing and monitoring the performance of, and removing the Managing Director;
- Ratifying the appointment, and where appropriate, the removal of the Chief Financial Officer (or equivalent) and / or Company Secretary;
- Reviewing the effectiveness of the Company's policies and procedures regarding risk management, including internal controls and accounting systems; and
- Ensuring appropriate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility.

(c) Chairman

The Chairman, satisfies the requirements for an Independent Chairman under ASX Recommendations 2.1 and 2.2 as Mr Hartigan is a non-executive, and has 0.0 % of the Shares (Recommendations permit 5%). Troon Securities a company controlled by Mr Hartigan has 5,000,000 shares (1.1% of shares) as at the date of this report.

The Chairman is elected by the full Board of directors and is responsible for:

- Leadership of the Board;
- The efficient organisation and conduct of the Board's functions;
- The promotion of constructive and respectful relations between Board members and between the Board and management;
- Contributing to the briefing of Directors in relation to issues arising at Board meetings;
- Facilitating the effective contribution of all Directors; and
- Committing the time necessary to effectively discharge the role of the Chairman.

ASX Recommendation 2.3

(d) Independent directors

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management

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2. The Board of Directors (Continued)

accountable for its performance. The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each director's individual circumstances rather than general materiality thresholds. In assessing independence, the Board considers whether the director has a business or other relationship with the Company, directly or as a partner, shareholder or officer of a Company or other entity that has an interest or a business relationship with the Company or another Medical Australia group member.

Mr Hartigan, Mr Mitchell and Dr Cumming meet the Recommendations' various tests of independence. Therefore there is a majority of independent non-executive Directors and independent Directors on the Board.

ASX Recommendation 2.1, 2.6

(e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

In the event that a conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members further when that matter is being considered the Director may not vote on that matter, in accordance with the Corporations Act.

(f) Board Meetings

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

The number of times the Board has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report. The Board Charter dictates that the Board will hold ten scheduled meetings each year and, other meetings may be held at short notice as required.

(g) Review of Board Performance

The process for conducting the Board's annual performance review was agreed by the Board and was performed by the Chairman of the Board. Matters covered in the annual performance review include:

- The Board's contribution to developing strategy and policy;
- Interaction between the Board and management, and between Board members;

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STATEMENT OF CORPORATE GOVERNANCE

2. The Board of Directors (Continued)

- The Board's processes to monitor business performance and compliance, control risk and evaluate Management;
- Board composition and structure; and
- The operation of the Board, including the conduct of Board meetings, Board Committee meetings and group behaviours.

ASX Recommendation 2.5

(h) Nomination and appointment of new directors

Recommendations for nominations of new directors are made by the Board Nominations Committee and considered by the Board in full. Mr Hartigan and Dr. Cumming are members of the Board Nominations Committee during the financial year and Mr Hartigan is Chairman of the Committee. Board membership is reviewed annually by the Committee to ensure the Board has appropriate mix of qualifications, skills and experience. External advisers may be used in this process. Candidates are appointed by the Board and must stand for election at the next general meeting of shareholders. If a new director is appointed during that year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any director by shareholders.

ASX Recommendations 2.1, 2.4

(i) Retirement and re-election of directors

The Company's Constitution states that one-third of directors excluding the Managing Director must retire each year. The maximum term that each director can serve in any single term is three years. A director appointed during the year must, under the Constitution, retire at the next annual general meeting. At that meeting, they can stand for re-election. The Board Nominations Committee conducts a peer review of those directors during the year in which that director will become eligible for re-election.

ASX Recommendation 2.4

(j) Board access to information and advice

All directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director has the right, subject to prior consultation with the Chairman, to seek independent professional advice at the Company's expense if such advice is essential to the proper discharge of the Director's duties. The Chairman may notify other Directors of the approach with any resulting advice being made available to all other Board members.

ASX Recommendation 2.5, 2.6

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STATEMENT OF CORPORATE GOVERNANCE

3. Board Committees

To assist the Board in fulfilling its duties and responsibilities, it has established the following committees:

- Audit and Risk Committee;
- Board Nominations Committee; and
- Remuneration Committee.

a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Medical Australia's website, at www.medaust.com. The Audit and Risk Committee comprises two Directors, who are non-executive Directors. The non-executive Directors are Mr Hartigan, Chairman of the Audit Committee and Mr Mitchell. The qualifications of the committee are located in the Directors Report. The Audit Committee's responsibilities include:

- Reviewing procedures, and monitoring and advising on the quality of financial reporting (including accounting policies and financial presentation);
- Reviewing the proposed fees, scope, performance and outcome of external audits. However, the auditors are appointed by a general meeting of the Shareholders.
- Reviewing the procedures and practices that have been implemented by management regarding internal control systems;
- Ensuring that management have established and implemented a system for managing material financial and non-financial risks impacting the Company;
- Reviewing the corporate governance practices and policies of the Company; and
- Reviewing procedures and practices for protecting intellectual property (IP) and aligning IP to strategy.

The Committee does not comply with the requirement to have an independent chairperson, who is not the chairperson of the Board. The Board believes that Mr Hartigan is the most appropriate person to be elected Chairman of the Committee. The Board does not comply with the ASX requirement to have at least 3 members on the Audit Committee. The Board believes that the experience that Mr Hartigan and Mr Mitchell have in the finance industry adequately mitigates this non-compliance.

The number of times the Audit and Risk Committee has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report. The Audit and Risk Committee monitors and reviews:

- The effectiveness and appropriateness of the framework used by the Company for managing operational risk;
- The adequacy of the Company's internal controls including information systems controls and security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;

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3. Board Committees (Continued)

- The effectiveness of the compliance function in ensuring adherence to applicable laws and regulations, including the action of legal and regulatory developments which may have a significant impact;
- Operational risk issues;
- Action plans to address control improvement areas.

The Company's Auditor, is requested to attend the Annual General Meeting and to be available to answer shareholders questions about the conduct of the audit and the preparation and content of the Auditor's Report.

ASX Recommendations 4.1, 4.2, 4.3, 4.4

b) Board Nominations Committee

The Board Nominations Committee is governed by its charter, as approved by the Board. Mr Hartigan and Dr. Cumming were the members of the Board Nominations Committee during the financial year and Mr Hartigan is Chairman of the Committee. The primary function of the Nominations Committee is performing review procedures to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring that the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance. The Committee as delegated by the Board is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual directors;
- developing and implementing induction programs for new directors and ongoing education for existing directors;
- developing eligibility criteria for nominating directors;
- recommending appointment of directors of the Board;
- reviewing director independence; and
- succession planning for the Board.

The number of times the Board Nominations Committee has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report.

ASX Recommendations 2.4, 2.6

c) Remuneration Committee

The Remuneration Committee is governed by its charter, as approved by the Board. Mr Hartigan and Dr. Cumming were the members of the Remuneration Committee during the financial year and Mr Hartigan is Chairman of the Committee. The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, senior executives and non-executive directors. Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities. Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate

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3. Board Committees (Continued)

performance contribution to long-term growth, relevant comparative information and independent expert advice. As well as base salary, remuneration packages may include superannuation and retirement and termination entitlements.

The Remuneration Report, which has been included in the Directors' Report, provides information on the Group's remuneration policies and payment details for Directors and key management personnel.

The number of times the Board Nominations Committee has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report.

ASX Recommendation 8.1

4. Recognising and managing risks

A range of factors and risks some of which are beyond the Company's control can influence performance. The Company has in place a range of procedures such as the Delegated Authority Matrix to identify, assess and control risks which are reviewed by the Audit and Risk Committee and also by the Board periodically.

a) Board oversight of the risk management system

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The Company recognises five main types of risk:

- Market risk, relates to the risk to earnings from changes in market conditions including economic activity, interest rates, investor sentiment and world events.
- Operational risk, relates to inadequacy of or a failure of internal processes, people or systems or from external events.
- Credit risk, relates to the risk that the other party to a transaction will not honour their obligation; and
- Regulatory risk, relates to the risk that there may be changes to legislation (including but not limited to laws which relate to corporations and taxation) in the future which restricts or limits in some way the Company's activities and
- Financial risk, relates to the risk that there may be insufficient cashflow generated in order to meet financial obligations.

ASX recommendations 7.1, 7.4

The Board, based on the recommendations of the Chief Executive Officer and Chief Financial Officer, makes decisions on investments for the Company. The Board considers that the general retention by it of the power to make the final investment or divestment decision by majority vote provides an effective review of the investment strategy.

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4. Recognising and managing risks (Continued)

A majority of the Directors must approve any modification to the investment parameters applying to the Company's assets. Any proposed major change in investment strategy is first put to Shareholders for their approval.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy.

Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

ASX Recommendation 7.2

c) Managing Director and Chief Financial Officer Certification

The Managing Director and Chief Financial Officer provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management and internal controls are operating efficiently and effectively in all material respects.

ASX recommendations 7.3

(d) Internal review and risk evaluation

Assurance is provided to the Board by senior management on the adequacy and effectiveness of management controls for risk.

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5. Remuneration

a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Chief Executive Officer and other key personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and each of the Company's officers and executives are set out in the Remuneration Report on pages 17 to 20. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

ASX recommendations 9.1, 9.2, 9.3

b) Equity-based key management personnel remuneration

The Company is committed to the link between employee remuneration and their performance and will continue the practice in the next 12 months to ensure that our staff are rewarded for their output, increased employee motivation and become an employer of choice.

6. Timely and balanced disclosure

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's market disclosure policy approved by the Board governs how the Company communicates with shareholders and the market. Shareholders are encouraged to participate in general meetings.

a) Market disclosure policy and practices

This policy includes provision for communications by the Company to:

- Be factual and subject to internal vetting and authorisation before issue;
- Be made in a timely manner;
- Not omit material information;
- Be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and
- Be in compliance with ASX Listing Rules continuous disclosure requirements.

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating disclosure of information to the ASX.

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6. Timely and balanced disclosure (Continued)

ASX Recommendations 5.1, 5.2, 6.1, 6.2

b) Communication strategy

The Company publishes on its website the annual reports, profit announcements, press releases and notices to meeting to encourage shareholder and investor participation in Medical Australia. The Board has adopted a share trading policy and has ensured that all officers and employees are aware of the terms thereof.

ASX Recommendations 6.1, 6.2

7. Ethical and responsible decision-making

a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of Medical Australia act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. All officers and employees are expected to:

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of potential conflicts.

ASX Recommendations 3.1, 3.2, 3.3

b) Policy concerning trading in Company securities

The Company has compliance standards and procedures which deal with staff trading in shares when they are in possession of inside information. Employees are made aware of the legal and ethical aspects associated with their private investment activities, especially as they relate to potential insider trading and front running. All staff must keep an up-to-date register of their securities holdings, including the dates of acquisition and disposal.

ASX Recommendations 3.2

8. Encourage Enhanced Performance

The Board takes care to ensure that individual Directors and Senior Management have the necessary knowledge and information to perform their duties effectively and performance of management is reviewed regularly by means of key performance indicators.

ASX Recommendations 8

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9. Remuneration Report and Nominations Policies

The responsibilities of the Remuneration & Nomination Committee include making recommendations to the Board regarding the remuneration of senior executives, executive directors and non-executive directors of the Company.

In accordance with the Constitution of Medical Australia, shareholders determine the aggregate annual remuneration of the Non-Executive Directors.

Non-Executive Directors are eligible to receive options over the Company's shares at the time of their retirement where it is considered an appropriate element of remuneration in situations when the Non-Executive Director's skills and experiences are recognised as important to the Company's future development. The terms of the options are set out in agreements between the Company and Non-Executive Directors and will vary depending on the age of the relevant Director at the time of retirement.

ASX Recommendations 9.2, 9.3

10. Recognise legitimate interests of stakeholders

The Board has established a code of conduct and occupational health and safety policies for its Directors and Employees and considers relevant risk factors and a risk matrix at each meeting of Directors.

ASX Recommendations 10.1

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Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance (Y / N)
Principle 1: Lay solid foundations for management and oversight		
1.1 Companies should establish the function reserved to the board and those delegated to senior executives and disclose those functions.	2b	Y
1.2 Companies should disclose the process for evaluating the performance of senior executives.	5a, 5b	Y
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	2a, 2b, 5a, 5b	Y
Principle 2: Structure the board to add value		
2.1 A majority of the board should be independent directors.	2.1 2a, 2d, 2h	Y
2.2 The chair should be an independent director.	2c	Y
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	2a, 2c	Y
2.4 The board should establish a nomination committee.	2h, 2i, 3b	Y
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	2g, 3c	Y
2.6 Companies should provide the information indicated in the Guide to reporting on this Principle 2.	2a, 2b, 2d, 2j, 3b	Y
Principle 3: Promote ethical and responsible decision-making		
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:	7a	Y
3.1.1 the practices necessary to maintain confidence in the company's integrity;		
3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and		
3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	-	N
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	-	N
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	-	N
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3	7a	Y

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STATEMENT OF CORPORATE GOVERNANCE

Principle 4: Safeguard integrity in financial reporting		
4.1 The board should establish an audit committee.	3a	Y
4.2 The audit committee should be structured so that it:	3a	Y
4.2.1 consists only of non-executive directors;		
4.2.2 consists of a majority of independent directors;		
4.2.3 is chaired by an independent chair, who is not the chair of the board; and		
4.2.4 has at least three members		
4.3 The audit committee should have a formal charter.	3a	Y
4.4 Companies should provide the information indicated in the Guide to reporting on this Principle 4.	2a, 3a	Y
Principle 5: Make timely and balanced disclosure		
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	6a	Y
5.2 Companies should provide the information indicated in the Guide to reporting on this Principle 5.	6a	Y
Principle 6: Respect the rights of shareholders		
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encourage participation at general meetings and disclose their policy or a summary of that policy.	6a, 6b	Y
6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.	6a, 6b	Y
Principle 7: Recognise and manage risk		
7.1 Companies should establish policies for the oversight and management of material businesses risks and disclose a summary of those policies.	4a	Y
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of business risks.	4b	Y
7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.	4c	Y
7.4 Companies should provide the information in the Guide to reporting on this Principle 7	4a	Y

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

STATEMENT OF CORPORATE GOVERNANCE

Principle 8: Encourage enhanced performance

8.1 Fairly review and actively encourage enhanced board and management effectiveness. This means that directors and key executives should be equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed.	2g, 8	Y
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Principle 9: Remunerate fairly and responsibly

9.1 The board should establish a remuneration committee	3c, 5a	Y
9.2 The remuneration committee should be structured so that it:	5a, 8	Y
9.2.1 consists of a majority of independent directors		
9.2.2 is chaired by an independent chair		
9.2.3 has at least three members		
9.3 Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.	3c, 5a, 8	Y
9.4 Companies should provide the information indicated in the Guide to reporting on this Principle 8	5a	Y

Principle 10: Recognise legitimate interests of stakeholders

10.1 The Board has established a code of conduct	7a, 10	Y
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At present, Principle 3.2, 3.3 and 3.4 have not been adopted by the Company in FY11. However these principles will be included as part of the Corporate Governance framework in FY12 as required by the ASX.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

Your directors have pleasure in submitting their annual report together with the consolidated financial report of Medical Australia Limited (the Company), being the Company and its controlled entities, for the year ended 30 June 2011, and the auditor's report thereon.

Directors

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

Thomas Hartigan (Chairman)	Director since 3 March 2010
Ian Mitchell	Director since 6 November 2008
Mark Donnison	Director since 30 June 2011
Dr Geoff Cumming	Director since 23 January 2009
Gary Lewis	Director from 24 November 2006 to 30 June 2011

Thomas Hartigan, Chairman

Thomas Hartigan holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in Australia. Mr Hartigan has more than 40 years experience as a Director of Australian public companies. He is currently also the non-executive chairman of First Folio Limited, a former non-executive chairman of Eiffel Technologies Ltd and former non-executive director of Charter Pacific Ltd.

Mr Hartigan has been a Director since 3 March 2010 and was appointed Chairman on 3 March 2010.

Ian Mitchell, Independent Non-Executive Director and Company Secretary

Ian Mitchell is a practising solicitor of over thirty five years standing. He has been a Director and Company Secretary of a number of publicly listed Mining and Industrial companies and his legal expertise is in commercial, contractual ASIC and ASX compliance work. His academic qualifications are BA, Dip Law (Sydney).

Mr Mitchell was appointed Company Secretary on 16 October 2008 and has been a Director since 6 November 2008.

Mark Donnison, Executive Director

Mark Donnison has over 20 years of experience in the UK and Australian pharmaceutical industries, and has a successful pedigree in the areas of sales, marketing, business development and business administration. He was previously the company's General Manager of Sales and Marketing. Prior to joining Medical Australia, Mr. Donnison held the position of Director, National Pharmacy Business for Alphapharm. Alphapharm is Australia's largest prescription medicine supplier to the Pharmaceutical Benefits Scheme and a subsidiary of the American based Mylan Pharmaceuticals.

Mr Donnison was appointed CEO on 12 October 2009 and has been a Director since 30 June 2011.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

Dr Geoff Cumming, Independent Non-Executive Director

Dr Geoffrey Cumming has significant healthcare industry experience and holds a Bachelor of Science degree from Swinbourne and Monash University, an MBA from Macquarie University and a PhD from Monash University. He has worked in the biotechnology, medical and healthcare markets for over 30 years and has extensive M&A, government and healthcare regulatory experience. Dr Cumming worked as Managing Director, Oceania for Roche Diagnostic Systems and is currently Chairman of Sienna Cancer Diagnostics and a director of Anteo Diagnostics Limited.

Dr Cumming has been a Director since 23 January 2009.

Gary Lewis, Independent Non-Executive Director (Resigned 30 June 2011)

Gary Lewis holds both Bachelor of Commerce and a Masters of Business & Technology (MBT) degrees from the University of NSW. In addition to running his own investment and marketing services businesses, Gary has worked in senior management positions in some of Australia's largest organisations, including 15 years in the pharmaceutical industry. He has also worked with a number of Australian publicly listed companies over the past 11 years in advisory positions, with an emphasis on corporate strategy and business development. He is currently also a director of Robust Resources Limited and Golden Peaks Resources Ltd.

Mr Lewis had been a Director since 24 November 2006 and was appointed Managing Director on 1 March 2007. He resigned from Managing Director on 3 March 2010 and took-up a role as an Independent Non-Executive Director. He was Chairman of the Merger and Acquisitions committee.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

Directors' Interests

Directors' direct beneficial shareholdings as at year end were:

Specified directors	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011
Thomas Hartigan	-	-	-	-
Gary Lewis **	8,292,319	6,192,619	-	14,484,938
Ian Mitchell	553,103	3,956,205	1,076,551	3,432,757
Mark Donnison *	1,020,000	13,134,300	-	14,154,300
Dr Geoff Cumming	160,000	160,000	-	320,000

* Number of shares held at date of appointment as a director.

** Number of shares held at date of ceasing as director.

Directors' indirect beneficial shareholdings as at year end were:

Specified directors	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011
Thomas Hartigan	5,000,000	9,085,000	8,000,000	6,085,000
Gary Lewis **	-	-	-	-
Ian Mitchell	-	-	-	-
Mark Donnison *	-	-	-	-
Dr Geoff Cumming	-	-	-	-

* Number of shares held at date of appointment as a director.

** Number of shares held at date of ceasing as director.

Directors' Meetings

The directors' have attended the following meetings during the year:

- Audit and Risk Committee
- Nominations Committee
- Remuneration Committee

The number of directors' meetings held, including meetings held by telephone and by circulation of resolutions, and the number of those meetings attended by each of the directors of the Company, while a director, during the financial year were as follows:

	Directors Meetings		Audit and Risk Committee Meetings		Nominations Committee Meetings		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Thomas Hartigan	12	11	1	1	1	1	1	1
Gary Lewis	12	8	-	-	-	-	-	-
Ian Mitchell	12	12	1	1	-	-	-	-
Mark Donnison	-	-	-	-	-	-	-	-
Dr Geoff Cumming	12	9	-	-	1	1	1	1

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

Principal Activities

The principal activities of the Group during the course of the financial year were the development, manufacture and distribution of a range of medical devices.

Financial Results

The consolidated loss after income tax attributable to members of the Company for the year was \$342,723 (2010 - \$1,342,889).

Dividends

No dividends have been paid or declared during the financial year.

Significant Changes in State of Affairs

In the opinion of the directors, the significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2011 were as follows:

- Board restructure
- Management Changes
- Equity injections
- Finance facility restructure

Review of Operations

The operating and financial review of the Group during the year is detailed on pages 2 to 3 of this Annual Report.

Non-audit Services

During the year ended 30 June 2011 Gould Ralph Pty Ltd, a company associated with the auditor, performed registry and other services.

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not comprise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2011.

	2011	2010
	\$	\$
Share registry services	29,316	15,433
Other	9,526	5,850
Total	38,842	21,283

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

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

The lead auditor's independence declaration is set out on page 27 and forms part of the directors' report for the year ended 30 June 2011.

Events Subsequent to Balance Date

The Company received \$678,570 in cash post 30 June 2011 representing the exercise of 38,083,074 options at 2 cents per share by 14th July 2011 offset by settlement of a shareholder loan, principal and interest, of \$83,091. As advised to the market on 25 July 2011, the unexercised options will be underwritten by Auckland Trust Company Limited and used for strategic investment initiatives as agreed by the Board.

Likely Developments

Further information as to the likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

Environmental Regulations

The Company has complied with its environmental obligations. No environmental breaches have been notified by any Government agency to the date of the Directors' Report and it does not anticipate any obstacles in complying with the legislation.

Indemnification of Officer or Auditor

Indemnities have been given or insurance premiums paid amounting to \$14,343 relating to directors and officers insurance. No indemnifications have been provided in relation to the external auditor.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Remuneration Report (Audited)

The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the executive directors who, in turn, evaluate the performance of all other senior executives. The evaluation process is intended to assess the Group's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives

Remuneration comprises salary, bonus, statutory superannuation and options. The remuneration disclosed below represents the cost to the Company for the services provided under these arrangements.

Employees are eligible to participate in a bonus scheme, which pays bonuses based on a combination of discretionary bonuses and achievement of Key Performance Indicators.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

Bonus percentages are variable and percentages shown in the remuneration table represent percentage for cash bonuses paid for the year ended 30 June 2011.

The employment terms and conditions of other key management personnel and Group executives are formalised in contracts of employment. Terms of employment require that either party must give a minimum of one months notice prior to termination of the contract. Termination payments are not generally made.

The following table provides employment details of persons who were, during the financial year, members of the key management personnel of the consolidated group. This group includes the five executives receiving the highest remuneration.

Employment details of Key Management Personnel

Name	Title	Commencement date	Termination Provisions	% fixed remuneration
Mark Donnison	Managing Director & CEO	October 12 2009	4 weeks	89%
Suraj Sethuram	GM, Finance & Administration	June 6 2011	4 weeks	95%
Michael Jones	GM, Corporate Innovations	March 1 2008	4 weeks	98%
David Thomson	GM, QA/RA	July 22 2008	4 weeks	95%
Greg Lewis	CFO (Resigned in March 2011)	January 1 2010	4 weeks	94%

Details of the nature and amount of each major element of the emoluments of each director and each of the named executive officers of the Company and Group are:

	Short term Salary, bonus, fees and leave	Non monetary*	Other	Post-employment SGC benefits	Total	% of remuneration that is performance based
2011	\$	\$	\$	\$	\$	%
Directors						
Thomas Hartigan	50,000	-	-	4,500	54,500	-
Gary Lewis**	86,050	46,200	-	-	132,250	-
Dr Geoff Cumming	36,000	-	-	3,240	39,240	-
Ian Mitchell	44,000	-	-	-	44,000	-
Total, all Directors	216,050	46,200	-	7,740	269,990	-

* The non-monetary benefits paid to Gary Lewis in the form of shares were in lieu of invoices for directors fees.

**Resigned in March 2011.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Directors' Report

	Short term Salary, bonus, fees and leave \$	Non monetary	Other	Post- employment SGC benefits	Total	% of remuneration that is performance based
2011	\$	\$	\$	\$	\$	%
Key Management Personnel						
Mark Donnison *	284,749	-	28,189	25,627	338,565	11%
Suraj Sethuram	8,461	-	1,500	761	10,722	5%
Michael Jones	174,900	-	-	15,741	190,641	2%
David Thomson	138,600	-	-	12,474	151,074	5%
Greg Lewis**	135,355	-	20,963	11,828	168,146	6%
Total Key Management Personnel	742,065	-	50,652	66,431	859,148	-

* Mark Donnison was appointed as director on 30 June 2011 and in FY12 will be included in the directors disclosure.

**Resigned in March 2011

	Short term Salary, bonus, fees and leave	Non monetary	Other	Post- employment SGC benefits	Total	% of remuneration that is performance based
2010	\$	\$	\$	\$	\$	%
Directors						
Thomas Hartigan	20,833	-	-	1,875	22,708	-
Gary Lewis	120,313	-	-	-	120,313	-
Thomas Mann	-	38,500	-	-	38,500	-
Dr Geoff Cumming	51,831	-	-	4,665	56,496	-
Ian Mitchell	44,000	-	-	-	44,000	-
Total, all Directors	236,977	38,500	-	6,540	282,017	-

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

	Short term Salary, bonus, fees and leave	Non monetary	Other	Post- employment SGC benefits	Total	% of remuneration that is performance based
2010	\$	\$	\$	\$	\$	%
Key Management Personnel						
Mark Donnison	153,227	-	15,550	13,790	182,567	11%
Greg Lewis	85,976	-	14,481	7,738	108,195	6%
Mark McEnallay	96,728	-	-	7,309	104,037	2%
Michael Jones	165,000	-	-	14,625	179,625	2%
David Thomson	134,999	-	-	11,925	146,924	5%
Total Key Management	635,930	-	30,031	55,387	721,348	-

Options granted as compensation

Details of options that were granted as compensation to each key management person:

Director	Grant Date	Number of options granted	Fair value at grant date \$	Fair value per option \$	Option Terms (Exercise Price and Term)
Gary Lewis	17 September 2009	1,000,000	30,000	0.008	\$0.08 30 June 2014
Thomas Mann	17 September 2009	1,000,000	30,000	0.008	\$0.08 30 June 2014
Ian Mitchell	17 September 2009	500,000	15,000	0.008	\$0.08 30 June 2014
Geoff Cumming	17 September 2009	500,000	15,000	0.008	\$0.08 30 June 2014

The number of options that had vested as at 30 June 2011 is 3,000,000 (2010 – 3,000,000).

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs of the options issued, were the Company's share price of \$0.04 at the grant date, a volatility factor of 42.5% based on historic share price performance and a risk free interest rate of 3.50% based on the 10 year government bond rate.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Directors' Report

Non-executive Directors

Total compensation for all non-executive directors is determined by the board based on market conditions. Director's fees were paid to all independent directors as per the table provided earlier in the Director's Report.

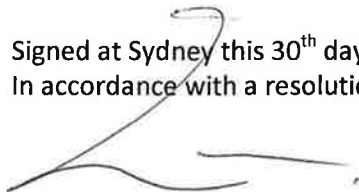
Options

At the date of this report, unissued ordinary shares of the Company under option are:

Number of Options	Exercise Price	Expiry Date
3,000,000	\$0.08	30 June 2014

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Signed at Sydney this 30th day of September 2011
In accordance with a resolution of the Board of Directors:



Thomas Hartigan
Chairman

30 September 2011

The Board of Directors
Medical Australia Limited
Level 17, 275 Alfred Street
NORTH SYDNEY NSW 2060

Dear Members of the Board

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001**

As lead auditor for the audit of Medical Australia Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Medical Australia Limited and any entities it controlled during the year.

Yours faithfully
GOULD RALPH ASSURANCE



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

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2011

		2011	Consolidated 2010
	Notes	\$	\$
Sale of goods	2	8,781,299	7,298,003
Cost of goods sold		(3,836,911)	(2,995,078)
Gross profit		4,944,388	4,302,925
 Expenses:			
Administration and consultants	2	(849,662)	(712,610)
Depreciation		(141,192)	(137,563)
Write down of inventory	2	-	(303,934)
Employee expenses	2	(3,161,818)	(3,051,202)
Travel and accommodation	2	(193,652)	(220,062)
Occupancy costs		(381,987)	(331,989)
Other		(460,857)	(663,712)
Loss before interest and tax		(244,780)	(1,118,147)
 Financial income	2	13,796	5,143
Financial expense	2	(186,842)	(229,885)
Net financing loss		(173,046)	(224,742)
 Loss before income tax expense		(417,826)	(1,342,889)
Income tax benefit	3	75,103	-
 Loss for the year		(342,723)	(1,342,889)
 Other comprehensive income after tax		-	-
 Total comprehensive loss for the year		(342,723)	(1,342,889)
 Basic loss per share attributable to ordinary shareholders (cents per share)	4	(0.09) cents	(0.51) cents
Diluted loss per share attributable to ordinary shareholders (cents per share)	4	(0.09) cents	(0.51) cents

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

		Consolidated	
		2011	2010
	Notes	\$	\$
CURRENT ASSETS			
Cash and cash equivalents	5	828,297	190,677
Trade and other receivables	6	966,924	852,676
Inventories	7	889,833	776,636
Prepayments		14,672	3,817
TOTAL CURRENT ASSETS		2,699,726	1,823,806
NON-CURRENT ASSETS			
Plant and equipment	8	340,086	336,175
Intangibles	9	4,378,714	4,422,709
TOTAL NON-CURRENT ASSETS		4,718,800	4,758,884
TOTAL ASSETS		7,418,526	6,582,690
CURRENT LIABILITIES			
Trade and other payables	10	1,427,112	1,880,423
Interest bearing liabilities	11	616,419	447,299
Provisions	12	239,333	159,486
TOTAL CURRENT LIABILITIES		2,282,864	2,487,208
NON-CURRENT LIABILITIES			
Interest bearing liabilities	11	751,283	1,028,000
Provisions	12	9,374	7,002
TOTAL NON-CURRENT LIABILITIES		760,657	1,035,002
TOTAL LIABILITIES		3,043,521	3,522,210
NET ASSETS		4,375,005	3,060,480
EQUITY			
Issued capital	13	17,249,844	15,602,018
Equity remuneration reserve	14	110,358	100,936
Accumulated losses	15	(12,985,197)	(12,642,474)
TOTAL EQUITY		4,375,005	3,060,480

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2011

	Issued capital \$	Equity Remuneration Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2009	15,029,018	86,203	(11,299,585)	3,815,636
Loss for the year	-	-	(1,342,889)	(1,342,889)
Cost of share based payments	-	14,733	-	14,733
Equity contributions	641,000	-	-	641,000
Share issue costs	(68,000)	-	-	(68,000)
Balance at 30 June 2010	15,602,018	100,936	(12,642,474)	3,060,480
Loss for the year	-	-	(342,723)	(342,723)
Cost of share based payments	-	9,422	-	9,422
Equity contributions	1,679,618	-	-	1,679,618
Share issue costs	(31,792)	-	-	(31,792)
Balance at 30 June 2011	17,249,844	110,358	(12,985,197)	4,375,005

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2011

		Consolidated	
		2011	2010
	Notes	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		8,629,004	7,895,475
Cash paid to suppliers and employees		(9,084,323)	(8,528,800)
Cash generated from/(used by) operations		(455,319)	(633,325)
Interest paid		(464,762)	(79,885)
Interest received		8,295	5,143
Income tax refund		75,103	-
Net cash (used) in operating activities	19	(836,683)	(708,067)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(101,108)	(102,211)
Payments for other assets		-	(54,131)
Net cash (used) in investing activities		(101,108)	(156,342)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,650,298	575,733
Payment of share issue costs		-	(68,000)
Proceeds from Borrowings		500,000	-
Repayment of Borrowings		(207,588)	(60,000)
Net cash provided by financing activities		1,942,710	447,733
Net increase/(decrease) in cash held		1,004,919	(416,676)
Cash and cash equivalents at the beginning of the year		(176,622)	240,054
Cash and cash equivalents at the end of the year	5	828,297	(176,622)

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

1. REPORTING ENTITY

Medical Australia Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the 'Group' or 'consolidated entity').

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 incurred a trading loss of \$342,723 and incurred negative cash flows from operations of \$836,683 for the year ended 30 June 2011. Accumulated losses were \$12,985,197 as at that date. Additionally the Group has breached its bank covenants in relation to its long term loan facility (refer to Note 11 – Interest Bearing Liabilities).

Whilst these factors cast doubt regarding the ability of the Group to continue as a going concern the directors identify the following mitigating factors:

- Management has prepared a cash flow forecast for the 15 months ending September 2012 which assumes an improvement in sales, profitability and cash flows, which indicates a strong cash position
- Actual sales for the 2 months ended 31 August 2011 significantly exceeded budgeted amounts
- The Group's bankers have renewed the loan facility for a 12 month period with the next review due 31 December 2012
- As disclosed in Note 12 – 'Subsequent Events' the Company raised additional capital of net \$678,570 post 30 June 2011 (14 July 2011) from the exercise of 38,083,074 options at 2 cents per share offset by settlement of a shareholder loan, principal and interest, of \$83,091.

Having regard to the above factors the directors are of the opinion that no material uncertainty exists in relation to the ability of the Group to continue as a going concern and its ability to realise its assets and extinguish its liabilities in the ordinary course of business.

No adjustments have been made to the recoverability and classification of recorded asset values and the amount and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with the

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial report was authorised for issue by the directors on 30th September 2011.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group.

Key estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 1 – Going Concern
- Note 8 – Property, plant and equipment
- Note 9 – Intangibles

Significant Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by entities in the Group.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of sale.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Notes to the Financial Statements
For the year ended 30 June 2011**

Trade and other receivables

The fair value of trade and other receivables is estimated as the book value less any identified specific impairments.

Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of options issued to management is measured using the Black-Scholes model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on governments bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between the buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical 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.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

New Accounting Standards for application in future periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 20102: Amendments to Australian Accounting Standards arising from Reduced Disclosure

Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
 - Tier 2: Australian Accounting Standards Reduced Disclosure Requirements.
- Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.
- The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):
- for-profit private sector entities that have public accountability; and
 - the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 20102 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific RDR disclosures.

AASB 200912: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

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Notes to the Financial Statements For the year ended 30 June 2011

AASB 200914: Amendments to Australian Interpretation Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

AASB 20104: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASBs annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 20105: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

**MEDICAL AUSTRALIA LIMITED
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**Notes to the Financial Statements
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AASB 20106: Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 20107: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 20108: Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

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AASB 20109: Amendments to Australian Accounting Standards Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

AASB 201010: Further Amendments to Australian Accounting Standards Removal of Fixed Dates for First-time Adopters [AASB 200911 & AASB 20107] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to AASB 200911: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 20107: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 200911 will only affect early adopters of AASB 200911 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 20107.]

This Standard is not expected to impact the Group.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intergroup balances and any unrealised gains and losses or income and expenses arising from intergroup transactions, are eliminated in preparing the consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition, such as freight. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Property plant equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Borrowing costs related to the acquisition or constructions of qualifying assets are recognised in profit or loss as incurred.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognised net within "other income" in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

- Office Equipment is depreciated at rates between 10% and 67% per annum using the diminishing value method.
- Plant and Equipment is depreciated at rates between 10% and 33% per annum using the diminishing value method.
- Furniture and Fittings are depreciated at rates between 7.5% and 30% per annum using the diminishing value method.
- Warehouse Equipment is depreciated at 20% per annum using the diminishing value method.

Intangible assets

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical 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.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if any objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

**MEDICAL AUSTRALIA LIMITED
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**Notes to the Financial Statements
For the year ended 30 June 2011**

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Comprehensive Income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the Statement of Comprehensive Income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the Statement of Comprehensive Income. For available-for-sale financial assets that are equity securities the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested for impairment annually or earlier if an impairment indicator exists.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

Trade and other payables

Trade and other payables are stated at their amortised cost, are non-interest bearing and are normally settled within 60 days.

Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Taxation

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are temporary differences are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

A deferred tax asset in relation to carry forward tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Medical Australia Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Revenue recognition

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the good, and the amount of revenue can be measured reliably. This generally occurs upon shipment.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Financial income

Financial income comprises interest revenue is recognised on an accrual basis, using the effective interest method.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the Statement of Comprehensive Income as other income on a systematic basis over the useful life of the asset.

Miscellaneous income

Miscellaneous income arises from re-charges of costs associated with employee costs, office rent and repairs to pumps.

Employee benefits

Wages, salaries, annual leave, long service leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave, and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers compensation insurance, payroll tax and superannuation. Long service leave is provided for after 5 years of service, adjusted by a discount factor and a probability factor (including on-costs).

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and, the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non Monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

**MEDICAL AUSTRALIA LIMITED
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**Notes to the Financial Statements
For the year ended 30 June 2011**

Issued Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

When the company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

**MEDICAL AUSTRALIA LIMITED
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**Notes to the Financial Statements
For the year ended 30 June 2011**

	Consolidated	
NOTE 2 – LOSS FROM OPERATING ACTIVITIES AND FINANCIAL INCOME	2011	2010
	\$	\$
Loss from ordinary activities includes the following items of revenue and expense:		
Revenue and other income		
Sales of goods	8,781,299	7,298,003
Expenses		
Administration and consultants expenses:		
- General and administrative	438,119	287,210
- Legal fees	361,086	167,160
- Consultancy fees	50,457	258,240
	849,662	712,610
Write-down of inventory	-	303,934
Acquisition deposit written-off	72,601	-
Wages and Salaries	3,079,599	2,966,382
Increase in liability for annual leave	82,219	84,820
Equity settled share based payment	9,479	14,733
Travel and entertainment	193,652	220,062
Audit and review financial reports	95,399	127,964
Foreign exchange (gain)	(155,532)	(71,869)
Financial income and expense		
Interest revenue	13,796	5,143
Interest expense	(186,842)	(229,885)
	(173,046)	(224,742)

At 30 June 2011, the Group had 29 employees (2010 - 24).

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**Notes to the Financial Statements
For the year ended 30 June 2011**

NOTE 3 - INCOME TAX EXPENSE	Consolidated	
	2011	2010
	\$	\$
Numerical reconciliation between tax expense and pre-tax net loss		
Loss before tax – continuing operations	(417,826)	(1,342,889)
Income tax using the domestic corporation tax rate of 30%	(125,348)	(402,867)
Increase/ (decrease) in income tax expense due to:		
- Non-deductible expenses	125,824	63,568
- Effect of tax losses brought to account	(476)	-
- Effect of tax losses not brought to account	-	339,299
- Research & development tax offset	75,103	-
Income tax benefit/(expense)	75,103	-

Deferred Tax Assets not brought to account

The Directors estimate that at 30 June 2011 the amount of deferred tax assets not brought to account in respect of unused tax losses was \$2,825,489 (2010 \$2,825,966) and in respect of temporary differences was \$86,453 (2010 \$186,253). The income tax return for FY11 has not been lodged as at the date of this report.

The benefit of these temporary differences and tax losses will only be obtained if:

- I. The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- II. The consolidated entity continues to comply with the conditions for deductibility imposed by the tax legislation; and
- III. No changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

NOTE 4 - LOSS PER SHARE	Consolidated	
	2011	2010
	\$	\$
Net loss for the year	(342,723)	(1,342,889)
	Number	Number
Weighted average number of ordinary shares		
Weighted average issued ordinary shares at year end	363,548,140	261,266,802

As at 30 June 2011 there are 53,110,881 (2010: 3,000,000) options, being 'potential' ordinary shares on issue. These options are not included in the calculation of diluted per share as they are not considered dilutive.

**MEDICAL AUSTRALIA LIMITED
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**Notes to the Financial Statements
For the year ended 30 June 2011**

NOTE 5 – CASH AND CASH EQUIVALENTS	Consolidated	
	2011	2010
	\$	\$
Cash at bank and on hand	719,297	81,677
Term deposits	109,000	109,000
	<u>828,297</u>	<u>190,677</u>

The interest rate on Term Deposits was 6.00% (2010 – 4.00%)

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

Cash and cash equivalents	828,297	190,677
Bank overdrafts	-	(367,299)
	<u>828,297</u>	<u>(176,622)</u>

NOTE 6 – TRADE AND OTHER RECEIVABLES

Current

Trade debtors	966,924	802,314
Advances	-	50,362
	<u>966,924</u>	<u>852,676</u>

Trade debtors are based on normal terms of trade, typically 30 days from end of month.
Retention of title terms exist on sales.

NOTE 7 – INVENTORIES

Current

Finished goods	<u>889,833</u>	<u>776,636</u>
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**MEDICAL AUSTRALIA LIMITED
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**Notes to the Financial Statements
For the year ended 30 June 2011**

	Consolidated	
	2011	2010
NOTE 8 – PROPERTY, PLANT AND EQUIPMENT	\$	\$
Plant and equipment	328,649	249,604
Accumulated depreciation	(164,715)	(122,026)
	163,934	127,578
 Furniture and fixtures	 38,284	 38,284
Accumulated depreciation	(8,719)	(5,434)
	29,565	32,850
 Office equipment	 305,222	 283,227
Accumulated depreciation	(194,151)	(151,875)
	111,071	131,352
 Leasehold Improvements	 61,155	 61,155
Accumulated depreciation	(25,639)	(16,760)
	35,516	44,395
 Total plant and equipment	340,086	336,175

Movement in carrying amounts are as follows:

Plant and equipment		
Carrying amount at beginning of year	127,578	157,129
Additions	79,045	-
Depreciation	(42,689)	(29,551)
	163,934	127,578
 Carrying amount at year end	 163,934	 127,578
 Furniture and fittings		
Carrying amount at beginning of year	32,850	23,923
Additions	-	13,268
Depreciation	(3,285)	(4,341)
	29,565	32,850
 Carrying amount at year end	 29,565	 32,850

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	Consolidated	
	2011	2010
	\$	\$
Office equipment		
Carrying amount at beginning of year	131,352	136,727
Additions	21,995	44,966
Depreciation	(42,276)	(50,341)
	111,071	131,352
Leasehold Improvements		
Carrying amount at beginning of year	44,395	53,749
Additions	-	1,593
Depreciation	(8,879)	(10,947)
	35,516	44,395
Total		
Carrying amount at beginning of year	336,175	371,528
Additions	101,040	59,827
Depreciation	(97,130)	(95,180)
	340,086	336,175

During the year ended 30 June 2011, no impairment write down was considered necessary.

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**Notes to the Financial Statements
For the year ended 30 June 2011**

	Consolidated	
NOTE 9 - INTANGIBLES	2011	2010
	\$	\$
Goodwill – TUTA Healthcare (1)	3,409,564	3,409,564
Goodwill on acquisition – Clements	701,151	701,151
	4,110,715	4,110,715
Product Development Costs – Gross	359,179	359,109
Less: Accumulated amortisation	(91,180)	(47,115)
Product Development Costs - net	267,999	311,994
	4,378,714	4,422,709

(1) The Goodwill relating to the Cash Generating Unit TUTA Healthcare of net \$3,409,564 and Clements of net \$701,151 was tested for impairment at 30 June 2011. The directors believed that \$Nil impairment write-down existed in the year to 30 June 2011 (2010: \$Nil).

(2) The recoverable amount of Cash Generating Units of TUTA Healthcare and Clements are determined on a value in use calculation using cash flow projections as at 30 June 2011 based on financial budgets approved by management covering a five year period with a terminal value. The sales growth rate applied was 7.5% for each of the 5 years with a 2% growth rate applied for the terminal year. Cost was assumed to grow by 5% each year for 5 years. The pre-tax risk adjusted discount rate applied to these cash flow projections is 15%. The discount rate reflects management's estimate of the time value of money and the risks specific to the cash generating unit.

(3) Sensitivity analysis performed shows that no impairment write-down of both Cash Generating Units are necessary if the sales growth rate was reduced to 6% for each year for 5 years and 2% for the terminal year and the cost growth rate was reduced to 2.5% for each year for 5 years. Any subsequent reduction in the sales growth rates will incur an impairment write-down.

Goodwill represents intangible assets which could not be readily identified or separated.

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 30 June 2011, specific Product Development Costs capitalised as intangible assets had a carrying value of \$267,999 (June 2010: \$311,994).

	Consolidated	
NOTE 10 – TRADE AND OTHER PAYABLES	2011	2010
	\$	\$
Current		
Trade creditors	750,389	1,446,629
Payroll liabilities	71,031	75,260
Customer deposits	-	42,250
Accruals	605,692	316,284
	1,427,112	1,880,423

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**Notes to the Financial Statements
For the year ended 30 June 2011**

	Consolidated	
	2011	2010
	\$	\$
NOTE 11 – INTEREST BEARING LIABILITIES		
Current		
Bank overdraft- secured	-	367,299
Bank loan - secured *	416,000	-
Loans – secured	200,419	80,000
Total	<u>616,419</u>	<u>447,299</u>
Non-current		
Loans – secured **	<u>751,283</u>	<u>1,028,000</u>

* The interest coverage and net tangible worth covenants of the bank loan were not met as at 30 June 2011. However, the bank has agreed not to demand payment in light of the group's positive future outlook and one-off income statement adjustments (legal fees and acquisitions deposit write-off) that affected the 30 June 2011 loss for the year.

** secured over the assets and undertakings of the Group

NOTE 12 – PROVISIONS

Current

Provision for employee annual leave and long service leave entitlements	<u>239,333</u>	<u>159,486</u>
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Non-current

Provision for employee long service leave entitlements	<u>9,374</u>	<u>7,002</u>
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(a) Movements in provisions

Movements in provisions for the financial year are as follows:

Annual Leave

Carrying amount at beginning of year	102,310
Increases to provision	199,385
Amount utilised	<u>(119,566)</u>
As at 30 June 2011	<u>182,129</u>

Long Service Leave

Carrying amount at beginning of year	64,178
Increases to provision	<u>2,400</u>
As at 30 June 2011	<u>66,578</u>
Current	57,204
Non-current	<u>9,374</u>
	<u>66,578</u>

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For the year ended 30 June 2011**

NOTE 13 – ISSUED CAPITAL	Consolidated	
	2011	2010
Issued and paid up capital	\$	\$
392,564,953 (2010 – 277,844,152)		
ordinary shares, fully paid	<u>17,249,844</u>	<u>15,602,018</u>

	2011	2011	2010	2010
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of year	277,844,152	15,602,018	252,977,488	15,029,018
Issue of shares (Net of issue costs)	<u>114,720,801</u>	<u>1,647,826</u>	<u>24,866,664</u>	<u>573,000</u>
 Balance at end of year	 <u>392,564,953</u>	 <u>17,249,844</u>	 <u>277,844,152</u>	 <u>15,602,018</u>

During the year:

- The Company issued 52,144,138 fully paid ordinary shares at 1.5 cents per share on 24 August 2010
- The Company issued 3,333,333 fully paid ordinary shares at 1.5 cents per share on 24 August 2010
- The Company issued 6,933,335 fully paid ordinary shares at nil consideration on 24 August 2010 as it related to rights issue adjustment
- The Company issued 15,015,272 fully paid ordinary shares at 1.5 cents per share on 26 August 2010
- The Company issued 15,001,300 fully paid ordinary shares at 1.5 cents per share on 30 September 2010
- The Company issued 607,292 fully paid ordinary shares at 3 cents per share on 30 September 2010
- The Company issued 12,233,333 fully paid ordinary shares at 1.5 cents per share on 15 November 2010
- The Company issued 1,533,334 ordinary shares in consideration of services rendered from directors, issue date 4 January 2011, at 1.2 cents per share
- The Company issued 1,100,000 ordinary shares in consideration of employees achieving their individual KPI's. The shares were issued on 31 March 2011 at 3.7 cents per share
- Options of 6,819,464 were exercised at 2 cents per share in June 2011

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.

**MEDICAL AUSTRALIA LIMITED
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For the year ended 30 June 2011**

	Consolidated	
NOTE 14 – EQUITY REMUNERATION RESERVE	2011	2010
	\$	\$
Opening balance	100,936	86,203
Option Charge	9,422	14,733
Closing balance	110,358	100,936

The issue of Company options results in a credit to the equity remuneration reserve for the fair value of the options issued. Details of the options issued are:

- 1,500,000 options were issued on 30 October 2007, exercisable at 6 cents each to acquire one fully paid ordinary share at any time up to 31 August 2008. The fair value at grant date was \$39,869 and the share price was \$0.06.
- 1,500,000 options were issued on 30 October 2007, exercisable at 10 cents each to acquire one fully paid ordinary share at any time up to 31 August 2009. The fair value at grant date was \$46,334 and the share price was \$0.06.

The above options were issued to the Managing Director, Gary Lewis following a special resolution at the Annual General Meeting.

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs were the Company's share price of \$0.06 at the grant date, a volatility factor of 124% based on historic share price performance and a risk free interest rate of 6.33% based on the 10 year government bond rate.

- 3,000,000 options were issued on 17 September 2009, exercisable at 8 cents each to acquire one fully paid ordinary share at any time up to 30 June 2014. The fair value at grant date was \$24,213 and the share price was \$0.03.

The above options were issued to the Directors.

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs were the Company's share price of \$0.04 at the grant date, a volatility factor of 42.5% based on historic share price performance and a risk free interest rate of 3.5% based on the 10 year government bond rate.

	Consolidated	
NOTE 15 - ACCUMULATED LOSSES	2011	2010
	\$	\$
Accumulated losses at beginning of year	(12,642,474)	(11,299,585)
Net loss attributable to members of the parent entity	(342,723)	(1,342,889)
Accumulated losses at year end	(12,985,197)	(12,642,474)

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

Dividends

No dividends were paid or declared during the year.

NOTE 16 - PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Parent Entity

Medical Australia Limited is an Australian incorporated company listed on the Australian Securities Exchange.

Controlled Entities	Country of Incorporation	Ownership Interest	
		2011	2010
			%
BMDI Pty Ltd	Australia	100	100
BMDI TUTA Healthcare Pty Ltd	Australia	100	100
Bio Medical Developments International Pty Ltd	Australia	70	70

During the year, no subsidiaries were acquired or disposed of.

Minority interests

Minority interests have a value of nil, as the controlled entity has incurred operating losses in excess of its capital and the parent entity has brought to account 100% of the losses beyond the capital of the controlled entity.

NOTE 17 – PARENT ENTITY DISCLOSURE

Financial Position

	Company	
	2011	2010
	\$	\$
Assets		
Current Assets	528,255	871,693
Non-Current Assets	5,779,071	3,815,637
Total Assets	6,307,326	4,687,330
Liabilities		
Current Liabilities	229,035	221,470
Non-current Liabilities	-	50,000
Total Liabilities	229,035	271,470
Equity		
Issued Capital	17,249,841	15,602,018
Equity Remuneration Reserve	110,416	100,936
Accumulated Losses	(11,281,966)	(11,287,094)
Total Equity	6,078,291	4,415,860
Financial Performance		
Loss for the year	(213,282)	(485,922)
Other comprehensive income	-	-
Total loss for the year	(213,282)	(485,922)

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

NOTE 18 – FINANCIAL INSTRUMENTS DISCLOSURE

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The summaries below present information about the Group's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Group's maximum exposure to credit risk in relation to financial assets:

	Consolidated	
	Carrying amount 2011 \$	Carrying amount 2010 \$
Cash and cash equivalents	719,297	81,677
Term deposits	109,000	109,000
Trade and other receivables	966,924	852,676
Prepayments	14,672	3,817
	1,809,893	1,047,170

Cash and term deposit

The Group mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the healthcare industry and country, in which customers operate, has less of an influence on credit risk. Approximately 18 percent of the Group's revenue is attributable to sales transactions with one major customer.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents their best estimate of incurred losses in respect of trade and other receivables. The main

**MEDICAL AUSTRALIA LIMITED
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components of this allowance are a specific loss component that relates to individually significant exposures.

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	Consolidated	
	2011	2010
	\$	\$
Australia	884,915	763,001
Asia	21,813	64,408
Europe	41,982	21,091
USA	-	898
Other	18,214	22,742
	<u>966,924</u>	<u>872,140</u>

The ageing of the Group's trade receivables at the reporting date was:

	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	667,889	-	778,988	-
Past due 30 – 60	286,368	-	75,610	-
Past due 61 – 90	12,667	-	17,542	-
	<u>966,924</u>	<u>-</u>	<u>872,140</u>	<u>-</u>

An impairment loss of \$NIL was taken up at 30 June 2011 (2010 – \$NIL) against overseas customers who are either past due on payments or who are on extended payment terms. These extended terms were negotiated at the time of the sale.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group opened a bank loan in November 2010 and closed off the overdraft facility in December 2010. The covenants of bank loan were breached at the end of the year. However, the bank has agreed not to demand payment in light of the group's positive future outlook and one-off income statement adjustments that affected the 30 June 2011 loss for the year.

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The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount	Contractual cash flows	Less than one year	Between one and five years	More than five years
30 June 2011					
Trade and other payables	1,427,112	(1,427,112)	(1,427,112)	-	-
Interest bearing liabilities	1,367,702	(1,367,702)	(616,419)	(751,283)	-
	<u>2,794,814</u>	<u>(2,794,814)</u>	<u>(2,043,531)</u>	<u>(751,283)</u>	<u>-</u>
30 June 2010					
Trade and other payables	1,880,423	(1,880,423)	(1,880,423)	-	-
Interest bearing liabilities	1,475,299	(1,475,299)	(447,299)	(1,028,000)	-
	<u>3,355,722</u>	<u>(3,355,722)</u>	<u>(2,327,722)</u>	<u>(1,028,000)</u>	<u>-</u>

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate funding and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations for the settlement of financial assets and liabilities.

Interest rate risk

The Group's Statement of Comprehensive Income is affected by changes in interest rates due to the impact of such changes on interest income from cash and cash equivalents, interest bearing security deposits and interest expense on the interest bearing liabilities.

At balance date, the Group had the following mix of financial assets exposed to variable interest rate risk that are not designated as cash flow hedges:

	Consolidated	
	2011	2010
	\$	\$
Cash and cash equivalents	719,297	81,677
Term deposits	109,000	109,000
Financial Assets	<u>828,297</u>	<u>190,677</u>
Bank Loan – Current	416,000	-
Overdraft – Current	-	367,299
Borrowings – Non Current	751,283	1,028,000
Financial Liabilities	<u>1,167,283</u>	<u>1,395,299</u>
Net Financial exposure	<u>(338,986)</u>	<u>(1,204,622)</u>

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

Sensitivity analysis

An increase of 100 basis points in interest rates throughout the reporting period would have increased the loss for the period by the amounts shown below, whilst a decrease of 100 basis points would have decreased the loss by the same amount.

	Consolidated Loss for the year \$
30 June 2011	<u>3,945</u>
30 June 2010	<u>3,958</u>

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than Australian dollars, the respective functional currency of the Group's entities. During the year ended 30 June 2011 approximately 81% (2010 - 90%) of the Group's sales were denominated in AUD with the remaining balance in USD. Approximately 71% percent of the Group's purchases were in USD, approximately 26% percent in AUD with the remainder in JPY and CHF.

A sensitivity analysis based on the Trade Payables as at 30 June 2011 with currency other than Australian dollars is provided:

		ATO FX Rate at 30 June	AUD Equivalent	3% Movement	5% Movement	10% Movement
CAD	(692)	1.0646	(650)	(670)	(684)	(722)
GBP	650	0.6861	947	977	997	1,053
JPY	564,995	89.6100	6,305	6,500	6,637	7,006
RMB	185,340	6.9444	26,689	27,515	28,094	29,655
USD	409,783	1.0976	373,345	384,892	392,995	414,828
			<u>406,637</u>	<u>419,213</u>	<u>428,039</u>	<u>451,819</u>
		Reduction in earnings		<u>(12,576)</u>	<u>(21,402)</u>	<u>(45,182)</u>

The Group does not hedge any of its foreign currency exposure at 30 June 2011.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board ensures costs are not incurred in excess of available funds and will seek to raise additional funding through issues of shares for the continuation of the Group's operation. There were no changes in the Group's approach to capital management during the year.

**MEDICAL AUSTRALIA LIMITED
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The Group is not subject to externally imposed capital requirements.

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values, given the short time frames to maturity and or variable interest rates.

NOTE 19 - STATEMENTS OF CASH FLOWS

Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and cash on deposit, net of bank overdrafts and excluding security deposits maturity greater than 90 days from year end. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2011	Consolidated 2010
	\$	\$
a) Reconciliation of net loss from operating activities to net cash used in operating activities		
Loss from operating activities after tax	(342,723)	(1,342,889)
Items classified as investing/financing activities		
Non-cash items		
Depreciation of property, plant and equipment	141,192	137,563
Movements in Provisions	52,985	94,816
Share based payment	27,379	20,000
Deposit written off	50,000	-
Changes in assets and liabilities		
Receivables	(112,050)	623,972
Inventories	(113,197)	527,526
Customer deposits	-	(26,500)
Other assets	(10,855)	(54,179)
Payables	(529,413)	(688,376)
Net cash used in operating activities	(836,683)	(708,067)

b) Non-cash financing and investing activities

The main activities that were undertaken during FY11 were as follows:

- Gary Lewis received shares in lieu of payment for his directors' fees.
- Issue of 1.1million shares in lieu of staff achieving individual KPI's as disclosed in Note 13.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2011

NOTE 20 – KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel

The following were key management personnel of the Company at any time during the reporting period

Directors

Thomas Hartigan (Chairman)
Ilan Mitchell
Gary Lewis (Resigned 30 June 2011)
Mark Donnison (Appointed 30 June 2011)
Dr Geoff Cumming

Executives

Mark Donnison (CEO)
Suraj Sethuram
Michael Jones
David Thomson
Greg Lewis (Resigned 4 March 2011)

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report Section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving director's interests existing at year-end.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in the Company held by each specified director or specified executive, including their personally-related entities, is as follows:

Directors	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011
Thomas Hartigan	5,000,000	9,085,000	8,000,000	6,085,000
Gary Lewis*	8,292,319	6,192,619	-	14,484,938
Ilan Mitchell	553,103	3,956,205	1,076,551	3,432,757
Mark Donnison**	1,020,000	13,134,300	-	14,154,300
Dr Geoff Cumming	160,000	160,000	-	320,000

* Number of shares held at date of ceasing as director.

** Number of shares held at date of appointment as a director.

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Notes to the Financial Statements For the year ended 30 June 2011

	Held at			Held at
Directors	1 July 2009	Purchases	Sales	30 June 2010
Thomas Hartigan	5,000,000	-	-	5,000,000
Thomas Mann*	2,000,000	-	-	2,000,000
Gary Lewis	11,433,034	-	3,140,715	8,292,319
Dr Geoff Cumming	160,000	-	-	160,000
Ian Mitchell	53,103	500,000	-	553,103

* Number of shares held at date of ceasing as a director.

Apart from the details disclosed in this note, no director or specified executive has entered into a material contract with the Company or the Group since the end of the previous financial year.

NOTE 21 - CONTROLLED ENTITIES

At balance date, the Company had amounts receivable from BMDI Pty Limited of \$4,151,437 (2010 - \$4,261,047), BMDI TUTA Healthcare Pty Ltd of \$2,464,424 (2010 - \$1,503,162) and Bio Medical Developments International Pty Limited of \$1,674,574 (2010 - \$1,674,574). These amounts are interest free, unsecured, have no fixed term of repayment and are repayable out of future profits.

Related Parties

The directors disclose of any conflict of interests in directors' meeting as per the requirements under the Corporations Act (2001). Any disclosures that are considered to fall under the definition of related parties as per AASB 124 'Related Party Disclosures' are made in the directors' meetings and minuted.

**MEDICAL AUSTRALIA LIMITED
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NOTE 22 - SEGMENT REPORTING

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

Geographical segments	Australia	Asia	New Zealand	Consolidated
	\$	\$	\$	\$
30 June 2011				
Revenue				
External segment income	7,388,367	569,966	355,119	8,313,452
Unallocated income				467,847
Interest income				13,796
				<u>8,795,095</u>
Result				
Segment result	(330,819)	(5,005)	(3,118)	(338,942)
Unallocated corporate expenses				(3,781)
				<u>(342,723)</u>
Net loss				
Assets				
Segment assets	7,418,526	-	-	<u>7,418,526</u>
Including non-current assets acquired during the year:				
Office equipment	16,105	-	-	16,105
Software	5,890	-	-	5,890
Leasehold Improvements	79,045	-	-	79,045
	<u>101,040</u>	<u>-</u>	<u>-</u>	<u>101,040</u>
Segment liabilities	<u>3,043,521</u>	<u>-</u>	<u>-</u>	<u>3,043,521</u>

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**Notes to the Financial Statements
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NOTE 22 –SEGMENT REPORTING (Cont'd)

Geographical segments	Australia	Asia	New Zealand	Consolidated
	\$	\$	\$	\$
30 June 2010				
Revenue				
External segment income	6,292,244	850,159	56,790	7,199,193
Unallocated income				98,810
Interest income				5,143
				<u>7,303,146</u>
Result				
Segment result	(1,158,003)	(156,341)	(10,443)	(1,324,787)
Unallocated corporate expenses				(18,102)
Net loss				<u>(1,342,889)</u>
Assets				
Segment assets	6,582,690	-	-	<u>6,582,690</u>
Including non-current assets acquired during the year:				
Furniture and fittings	13,268	-	-	13,268
Office equipment	12,058	-	-	12,058
Software	32,908	-	-	32,908
Leasehold Improvements	1,594	-	-	1,594
	<u>59,828</u>	<u>-</u>	<u>-</u>	<u>59,828</u>
Segment liabilities	<u>3,522,210</u>	<u>-</u>	<u>-</u>	<u>3,522,210</u>

Division of the Group's results and assets into geographical segments has been ascertained by direct identification of revenue cost centres. Asia includes China, India, Malaysia, Singapore and Thailand and primarily represents sales of components to our suppliers. There are no intersegment revenue transactions.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Notes to the Financial Statements
For the year ended 30 June 2011**

NOTE 23 - COMMITMENTS

a) Operating Lease Commitments

	Consolidated	
	2011	2010
	\$	\$
Payable:		
Within 1 year	439,435	183,250
Between 1 and 5 years	725,964	1,099,500
	<u>1,165,399</u>	<u>1,282,750</u>

b) Capital commitments

	Consolidated	
	2011	2010
	\$	\$
Payable:		
Within 1 year	616,419	447,299
Between 1 and 5 years	751,283	1,028,000
	<u>1,367,702</u>	<u>1,475,299</u>

Significant commitments are:

Property leases for the head office and warehouse have another 3 years in duration and have annual increases based on current market rates and the CPI index.

NOTE 24 – CONTINGENT ASSET

The group is in dispute with a former supplier in Thailand regarding a claim of \$101,745 for goods manufactured and supplied. This amount has been recognised in the financial statements as a trade and other payable. Whilst the liability has been recognised 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 which has not been determined as yet. The directors believe they will be successful in claiming these offsets.

Separately, the group is also claiming damages against two parties, the former supplier referred above and a competitor, with respect to breaches of confidentiality, breaches of non-compete and passing off Medical Australia Limited products. The claim relates to products with the Medical Australia Limited 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 have not been recognised in the financial statements as the amount of the claim cannot be measured reliably as at the date of this financial report and is subject to litigation. Accordingly, no amount has been recognised in the financial statements for this contingent asset. The court case is not expected to be heard until early 2012.

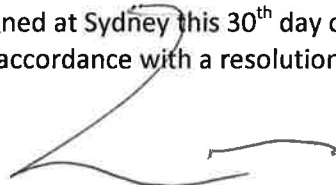
**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Directors' Declaration

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

1. (a) the financial statements and notes set out on pages 28 to 66 and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 21 to 26, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial 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 remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and
 - (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.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2011.
 3. The Directors' draw attention to Note 1 of the consolidated financial statements, which includes a statement of compliance with International Financial Reporting standards.

Signed at Sydney this 30th day of September 2011
in accordance with a resolution of the Board of Directors:



Thomas Hartigan
Chairman

Chartered Accountants

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**INDEPENDENT AUDIT REPORT TO THE
MEMBERS OF MEDICAL AUSTRALIA LIMITED**

Report on the financial statements

We have audited the accompanying financial statements of Medical Australia Limited which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial statements and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters Relating to Electronic Publication of the Audited Financial Report

This audit report relates to the financial report of Medical Australia Limited for the year ended 30 June 2011 included on the website of Medical Australia Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on this integrity. This audit report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial statements we were engaged to undertake services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditors' opinion

In our opinion:

1. the financial statements of Medical Australia Limited is 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 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 22 to 25 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion on the Remuneration Report

In our opinion the Remuneration Report of Medical Australia Limited for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

GOULD RALPH ASSURANCE
Chartered Accountants



GREGORY RALPH, M.Com, FCA
Partner
Sydney, 30th day of September 2011

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Additional Stock Exchange Information

Additional information as at 31st August 2011 required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

The Company is listed on the Australian Securities Exchange. The Home Exchange is Sydney.

Committees

The committees that were present at the date of this report and the memberships thereof include:

Audit and Risk Committee – Mr T Hartigan & Mr I Mitchell

Board Nominations Committee – Mr T Hartigan & Mr G Cumming

Remunerations Committee – Mr T Hartigan & Mr G Cumming

Substantial Shareholdings

At 31 August 2011 the Register of Substantial Shareholders showed the following:

Mr Andrew Fay	87,884,046
Mr Mark Donnison	19,539,450

Class of Shares and Voting Rights

The voting rights attached to ordinary shares, as set out in the Company's Constitution, are that every member in person or by proxy, attorney or representative, shall have one vote on a show of hands and one vote for each share held on a poll.

A member holding partly paid shares is entitled to a fraction of a vote equivalent to the proportion which the amount paid up bears to the issue price for the share.

Distribution of Shareholders

At 31 August 2011, the distribution of fully paid ordinary shares was as follows:

Range	Total Holder	Fully Paid Ordinary Shares	% Issued Capital
1 - 1,000	46	1,531	-
1,001 - 5,000	9	37,160	0.01%
5,001 – 10,000	49	467,347	0.11%
10,001 – 100,000	256	11,658,982	2.63%
100,001 and over	264	430,639,116	97.25%
		<u>442,804,136</u>	<u>100.00%</u>

At 31 August 2011, 204 shareholders held less than a marketable parcel of 33,333 shares.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Additional Stock Exchange Information

Use of Cash and Assets

Since the Company's listing on the Australian Securities Exchange, the Company has used its cash and assets that it had at the time of listing in a way consistent with its stated business objectives.

On Market Buy Back

There is no on market buy-back.

Consolidated Twenty Largest Shareholders

At 31 August 2011 the consolidated twenty largest quoted shareholders held 62.8% of the fully paid ordinary shares as follows:

Rank	Shareholder Group	No. of Shares	%
1	ANDREW FAY	87,884,046	19.8%
2	MARK DONNISON	19,539,450	4.4%
3	VICTOR HOOG ANTINK	18,875,000	4.3%
4	GARY LEWIS	17,581,247	4.0%
5	UBS NOMINEES PTY LTD	14,008,000	3.2%
6	ANDREW NUTT	11,529,999	2.6%
7	TREPLO PTY LIMITED	10,888,889	2.5%
8	AMNICOLE INVESTMENTS PTY LTD	10,888,889	2.5%
9	WARREN KAY	10,625,000	2.4%
10	MAL EUTICK	10,488,889	2.4%
11	KINETIC INVESTMENT CO PTY LTD	9,949,966	2.2%
12	C P YORK HOLDINGS PTY LTD	7,153,889	1.6%
13	AUSTROM PTY LIMITED	6,775,000	1.5%
14	SCRIPT TO SCREEN PTY LTD	6,747,804	1.5%
15	1147 PTY LTD	6,651,187	1.5%
16	JOHN WARDMAN	6,516,668	1.5%
17	TROON SECURITIES PTY LTD	6,085,000	1.4%
18	MR LOUIS PETRIN	5,900,000	1.3%
19	AUHILL INVESTMENT SERVICES	5,244,444	1.2%
20	MRS SUSAN HOLT	4,625,000	1.0%
Top 20		277,958,367	62.8%
Other		164,845,769	37.2%
Total		442,804,136	100.0%