

# Medical Australia Limited

ACN 096 048 912

## RIGHTS ISSUE REPLACEMENT PROSPECTUS

This is a replacement prospectus dated 11 June 2010 which replaces the replacement prospectus dated 7 June 2010 which replaced a prospectus dated 3 June 2010 in relation to the rights issue of Medical Australia Limited

For a non renounceable rights issue to Eligible Shareholders of 1 New Share for every 1 Share held on 20 July 2010 together with one listed option for every two shares so held at an issue price of \$0.015 per New Share to raise approximately \$4,167,662 before costs of the Offer.

The Options will be exercisable by 14 July 2011 at \$0.02 per option.

This rights issue is not underwritten

# IMPORTANT NOTICES

This replacement Prospectus is important and requires your immediate attention.

You should read the entirety of this replacement Prospectus carefully before deciding whether to apply for the Shares offered. The information contained in this replacement Prospectus is not financial product advice and does not take into account the investment objectives, financial situation, tax position or particular needs of individual investors.

Before deciding whether to apply for the Shares, you should consider whether they are a suitable investment for you in light of your own investment objectives and financial circumstances and having regard to the merits or risks involved. If, after reading this replacement Prospectus, you have any questions about the Offer, you should contact your stockbroker, accountant or other professional adviser.

The potential tax effects of the Offer will vary between investors. All investors should satisfy themselves of any possible tax consequences by consulting their own professional tax advisers.

Investors should note that past share price performance of Medical Australia Limited is not a guide to future share price performance.

This replacement Prospectus is dated 11 June 2010. A copy of this replacement Prospectus was lodged with the Australian Investments Securities Commission (ASIC) on 7 June 2010. ASIC and the Australian Securities Exchange (ASX) take no responsibility for the contents of this Prospectus.

No Securities will be issued on the basis of this replacement Prospectus later than thirteen (13) months after 3 June 2010. Application will be made to ASX for admission of the Securities offered by this Prospectus to Official Quotation within 7 days of the date of this replacement prospectus.

The Offer is made only to those Eligible Shareholders with registered addresses in Australia and only those Eligible Shareholders will be offered Shares hereunder.

Applicants should read this document in its entirety and, if in any doubt, consult with their professional advisers before deciding whether to apply for the Shares. There are risks associated with an investment in the Company and the Shares offered under this replacement Prospectus must be regarded as a speculative investment. The Shares offered under this replacement Prospectus carry no guarantee with respect to return on capital investment or the future value of the Shares.

Details of the definitions and abbreviations used in this replacement Prospectus are set out in the Glossary.

This replacement Prospectus will be issued in paper form and as an electronic replacement Prospectus which may be accessed on the Internet at [www.medaust.com](http://www.medaust.com). Persons who access the electronic version of this replacement Prospectus should ensure that they download and read the entire replacement Prospectus. The electronic version of this replacement Prospectus on the Company's website will not include an Entitlement and Acceptance Form.

The Corporations Act prohibits any person passing on to another person the application forms in relation to this replacement prospectus unless they are attached to, or accompanied by, the complete and unaltered version of the replacement Prospectus. Any person may obtain a hardcopy of this replacement Prospectus by contacting the Company.

## **Disclaimer of representations**

No person is authorised to give any information, or to make any representation, in connection with the Offer that is not contained in this replacement Prospectus.

Any information or representation that is not in this replacement Prospectus may not be relied on as having been authorized by Medical Australia Limited in connection with the Offer. Except as required by law, and only to the extent so required, either Medical Australia Limited, or any of its officers, warrants or guarantees the future performance of the Company or any return on any investment made pursuant to this replacement Prospectus.

## **Financial Forecast**

This replacement prospectus contains financial forecasts and forward looking statements regarding future contracts and sales of the Company. The directors believe that those forecasts and statements are made on a reasonable basis and are consistent with their experience of the industry. The attention of all shareholders is drawn to Section 2.7.2 and the comments made therein in that regard and the qualifications and experience of directors and senior management of the Company referred to in Sections 2.6.1 and 2.6.2.

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# CORPORATE DIRECTORY

## **DIRECTORS**

Thomas Hartigan

*Chairman/Executive Director*

Gary Lewis

*Non-Executive Director and Chairman of M&A Committee*

Geoffrey Cumming

*Non-Executive Director*

Ian Mitchell

*Non-Executive Director*

## **COMPANY SECRETARY**

Ian Mitchell

## **CHIEF EXECUTIVE OFFICER**

Mark Donnison

## **CHIEF FINANCIAL OFFICER**

Greg Lewis

## **REGISTERED OFFICE**

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Australia

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Fax: + 61 2 9233 3828

Website: [www.medaust.com](http://www.medaust.com)

## **ASX Code: MLA**

## **AUDITOR**

Gould Ralph Assurance  
Chartered Accountants  
Level 42, Suncorp Place  
259 George Street  
Sydney NSW 2000  
Australia  
Tel: +61 2 9032 3050  
Fax: +61 2 9032 3058

## **SHARE REGISTRY**

Gould Ralph Pty Limited  
Share Registry Division  
Level 42, Suncorp Place  
259 George Street  
Sydney NSW 2000  
Australia  
Tel: +61 2 9032 3050  
Fax: +61 2 9032 3058

## CHAIRMAN'S LETTER

30 July 2010

Dear Shareholder,

On 8 April 2010 Medical Australia Limited (Company) announced a capital raising to fund the purchase of the business, selected assets and the intellectual property of Care Essentials Pty Limited.

This Rights issue will raise approximately \$4,167,662 (before costs) through the issue of 277,844,152 new shares in the Company. The New Shares will be issued at a cost of \$0.015 each and for every two shares already held in the Company accepting shareholders will receive an option to acquire a further share for \$0.02 within twelve months.

Proceeds from the Issue will be used to fund the Care Essentials acquisition and for additional working capital requirements.

Full details of the Issue are contained in the Offer Document dated 11 June 2010, which is attached to this letter. Key dates that shareholders should note are as follows:

20 July 2010	Ordinary Shares trade ex-Rights on ASX
26 July 2010	Record Date for determining Rights entitlements
16 August 2010	Closing date for acceptances
19 August 2010	Expected date for allotment of shares and despatch of holding statements.

You are urged to read the offer document in full and to consult your stockbroker or financial adviser in relation thereto before deciding whether to accept the offer.

Shareholders who do not participate in this offer should be aware that the level of their existing proportion of share capital in the Company may be significantly diluted as a result of a shortfall in the number of shareholders accepting this offer for further shares in the Company and other persons or entities taking up such shortfall.

Amendments have been underlined for your convenience when reading this replacement prospectus (All amendments made in both the replacement prospectus and this replacement prospectus have been so underlined).

Yours faithfully

Tom Hartigan  
Chairman

# 1 THE OFFER OF SHARES

## 1.1 Terms of the Offer

The Offer in this Prospectus consists of a non renounceable pro-rata offer to Eligible Shareholders of up to 277,844,152 new shares at an issue price of \$0.015 per new share on the basis of one new share for every Share held at 5.00pm (AEST) on the Record Date together with an attaching option to acquire a further new share for every two shares held on the Record Date. This option will be exercisable by 14 July 2011 at \$0.02 per option. This Offer is subject to Shareholder approval at a General Meeting of the Company to be held on or about 15 July 2010.

## 1.2 Issue of Shares under this Offer subject to Shareholder approval

As described above, the issue of Shares under this Prospectus is subject to Shareholder approval at a general meeting of the Company.

## 1.3 Capital Structure of the Company

The capital structure of the Company on completion of the Offer and assuming it is fully subscribed is set out below.

	Shares	Options
Existing	277,844,152	Nil
Offer under this Prospectus	277,844,152	138,922,046
Total	555,688,304	138,922,046

There are a further 3,000,000 unlisted options on issue to officers and a former officer of the Company to take up shares in the Company at \$0.08 each exercisable by 30 June 2014.

## 1.4 Timetable

Action	Date
<u>Amended</u> Announcement of Non Renounceable Rights Issue	<u>11</u> June 2010
Date of the <u>replacement</u> Prospectus and lodgement with ASIC and Appendix 3B with ASX	<u>11</u> June 2010
Notice of general meeting sent to shareholders	11 June 2010
General Meeting to approve issue	15 July 2010
Ex Date	20 July 2010
Record Date to determine entitlements	26 July 2010
Dispatch of <u>replacement</u> Prospectus and Acceptance form to shareholders and opening date of offer	30 July 2010
Acceptance Closing Date	16 August 2010
Shortfall Notified to ASX	18 August 2010
Despatch date of holding statements	19 August 2010
Trading in shares to commence	20 August 2010

These dates are indicative only and the Company reserves the right to vary these dates including the Closing Date without notice but subject to any applicable requirements of the Corporations Act or ASX Listing Rules. This may include extending the Offer or accepting late applications, either generally or in particular cases. In the event that the Offer is not approved by Shareholders or the Shares are not able to be admitted to quotation within 3 months after the date of this Prospectus, the relevant application money (being the amount paid for the Shares applied for in a duly completed Application) will be returned without interest.

## 2 Business of the Company

### 2.1 Introduction

Medical Australia Limited (ASX: MLA) is engaged in the manufacture, distribution and sale of a broad range of quality medical devices and consumables used within human and animal healthcare markets, globally. MLA focuses on three core clinical areas:

- Medication Delivery
- Reuse Prevention
- Surgical

The company has a growing international and local customer base encompassing public and private hospitals, critical care services and OEM customers, including multinational medical device companies.

With an international supply chain that delivers high quality, low cost products that meet stringent domestic and global compliance standards, Medical Australia prides itself on the quality of its products and the quality systems that have been developed to support it.

### 2.2 Background

Medical Australia listed on the Australian Securities Exchange (ASX) in December 2004, embarking on an ambitious manufacturing, distribution and new product development programme focused on delivering safety medical solutions to the global healthcare industry. With a limited product portfolio and an ill-defined executional focus, this programme exposed the company to unsustainable competitive and financial pressures and led to a strategy re-evaluation and a change of Board and new CEO.

In May 2005 a revamped management team heralded a new direction designed to rebuild the business and redefine its priorities. As a result the company acquired a number of new key customers and established a core revenue stream built predominantly around product sourcing and outsourced (OEM) manufacture.

In March 2007 Gary Lewis was appointed as Managing Director to oversee the implementation and management of new business strategies and activities, with a focus on the acquisition of new businesses to 'bulk up' revenues and the development of the infrastructure necessary for a global medical device business. In March 2008 the company acquired TUTA Healthcare, and then in June 2009 completed the acquisition of Clements Medical Equipment. Both of these businesses are now fully integrated into MLA and well supported by people, systems and infrastructure. The business can now sustain far greater sales revenue without significant increase in head count or overhead.

In November 2009 a final round of restructuring took place, resulting in the appointment of Mark Donnison as CEO and Greg Lewis as CFO. Gary Lewis remains on the MLA Board as the head of its M&A Committee.

### 2.3 Business Model and Corporate Strategy

The growth of Medical Australia has been achieved in spite of limited resources and capital. The company has to date prioritised the development of its quality systems, supply chain, corporate infrastructure and management team. Concurrently the business has focused on improving margins through the aforementioned improved efficiencies. With this now in place and the businesses of Clements and TUTA fully integrated, the company is committed to leveraging these assets into a position of a much stronger market presence and profitability.



The Medical Australia business model is founded on three key elements, which create and compound its competitive advantage:

#### **Focus**

MLA focuses on niche markets within the global medical devices industry. The Company seeks out profitable segments in which it has a competitive advantage and in which margin integrity remains intact. By re-engineering its supply chain and quality systems, relocating the business and streamlining overhead expense, the Company has achieved quantum cost and quality of service improvements. From this strategic market position it can further expand into new markets with existing products and other complementary product offerings that fit with the customer base and distribution channels.

#### **Innovation**

While Medical Australia is a comparatively small company, competing against much larger competitors, our agility, flexibility and response times provide a unique competitive advantage. MLA can quickly adapt product to meet the specific requirements of individual clinicians – an ability that eludes larger competitors due to their size and inflexible manufacturing platforms. The Company's in-house design and R&D team constantly looks for new product opportunities and have many new products in development at any given time. Our enhanced supply chain can now seamlessly transition products from R&D to production with a rapid ramp up and streamlined market introduction.

#### **Scale and Acquisition**

Having crafted the necessary infrastructure to support a world class medical device business, our aim is to build substantial sales revenue utilising our latent capacities to deliver economies of scale across key functions including technology, cost and customer support. This will come from the acquisition and integration of new customers, new products and new businesses.

With this capital raising Medical Australia has a dual objective:

- Firstly, to fund the purchase of the business and select assets of Care Essentials, Australia's leading provider of patient warming solutions. This business fits perfectly with the MLA acquisition strategy and meets the following key attributes:-
  - Profitable
  - Earnings per Share (EPS) accretive
  - Minimal technological risk
  - Fits within our core clinical areas and competency
  - Customer base consistent with existing business and marketing channels
  - Immediate synergies
  - Business upside through leveraging Medical Australia's international distribution network
- Secondly, to recapitalise the existing business to facilitate a shift of focus from internal to external orientation, i.e. from infrastructure development to revenue expansion. This refocus will require investment in global sales, distribution and marketing programmes to build profitability and further enhance shareholder value.

The Medical Australia management team has designed a sales strategy that exploits current distribution channels and customers with existing products, whilst aggressively expanding into new markets. So far in 2010 the Company has appointed new distributors in New Zealand, Kuwait, Iran, Bahrain, Hong Kong, Indonesia, India and Sri Lanka. We have established a sales office in London and appointed a UK-domiciled Business Manager, in addition to an international Business Development Manager based in Colombo, Sri Lanka, responsible for the Middle East and Asia.

The AU\$7.5M revenue achieved last year came with very little sales or marketing support as the Company focused on developing infrastructure and integrating new businesses. We are now in the

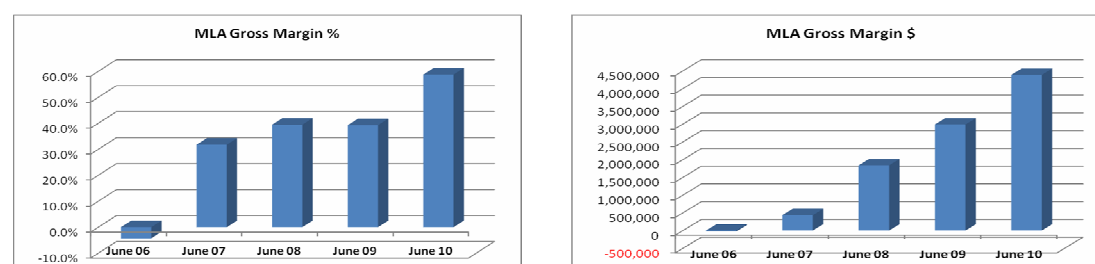
process of developing a far more proactive sales and marketing approach to fully optimise the potential of our current product range and customer base.

## 2.4 Company Highlights

The following summarises some of the company highlights of Medical Australia, which combine to form a compelling proposition for customers and investors alike.

### 2.4.1 Track Record

The company has focused on improving margins through the establishment of a low cost manufacturing base; developing the corporate structure to support the current business and future opportunities; and acquiring and integrating established brands. Margins have increased year on year as illustrated in the following charts, which show actual numbers to June 2009 and forward looking estimates to June 2010 as at April 2010.



### 2.4.2 Established Business With A Low Risk Profile

The company's acquisition strategy targets established brands with recurrent revenue streams. The TUTA business has supplied medical disposable plastics for over sixty years and has established ongoing business directly with hospitals, through OEM for global 'Blue Chip' customers and internationally via distributors. There are immediate growth opportunities through increasing OEM, launching new products and gaining further traction through our international distribution partners. The Clements business has supplied medical equipment for over one hundred years and markets its products solely through distributors both locally and internationally. Opportunities exist for growth through the development and launch of new products into existing networks.

### 2.4.3 Accelerated Growth Path

The company has an accelerated growth path via industry roll up and consolidation. There is a pipeline of potential M&A deals that would be earnings per share accretive, derived mainly from the extraction of sales and marketing synergies. The Australian market is valued at approximately A\$5 billion, representing less than one percent of the global market. Our growth is also linked to expansion in health and aged care industries.

### 2.4.4 Global Footprint

Medical Australia has either direct sales channels or sales and distribution partners in twenty one countries. Clements has worked with a number of these distributors for many years and we are enjoying success in introducing the TUTA product range to this international network.

The Company has a Business Development Manager based in Colombo who is servicing existing distributors throughout the Middle East and Asia and looking for new distribution partnerships in countries where none currently exists.

The Company has a UK Business Manager based in London. Whilst we enjoy some sales revenue in the UK, there is clearly a much greater opportunity there for us. We are currently having products evaluated by the UK National Health Scheme (NHS) and, as we establish a greater presence in this market, we plan to use the UK as a gateway to other EU countries.

Medical Australia is also evaluating opportunities in North and South America through our US based manufacturing partner.

#### **2.4.5 Strong Business Model**

Medical Australia currently has 25 staff members, all highly experienced and trained in their respective areas of expertise across supply chain, sales and marketing, innovation, quality systems and finance.

We have established brands and repeat business with a broad, low cost manufacturing capability. The improved mix of production and outsourcing has resulted in strong improvements in gross profit margins over the past three years.

We are in a growth market relatively immune from economic uncertainty.

We have many additional products and customers in our development pipeline, each of which is designed to enhance and complement the existing range and end user base.

## **2.5 Industry and Product Background**

This section describes the brands and businesses under the Medical Australia umbrella, the customers that we sell to and why customers choose Medical Australia.

### **2.5.1 Our Brands**

#### The BMDI business

Sourcing, development and manufacture of safety collection and injection devices utilising expertise in medical device sourcing and outsourced manufacture for major international medical companies (OEM).



#### The TUTA Healthcare business

Acquired by MLA in March 2008, TUTA is a sixty two year old developer, manufacturer and distributor of sterile and non-sterile medical plastics for the global human and animal healthcare markets.

The core TUTA business is intravenous components for the gravity fed infusion market worth A\$800M globally. TUTA is a leading name in blood pump, extension and arthroscopy sets in Australia and also offers a range of electronic pumps to deliver active and passive intravenous care.



#### The Clements business

Acquired by MLA in June 2009, Clements Medical Equipment is a 100 year-old developer, manufacturer and distributor of medical suction and oxygen devices and diagnostic and laboratory equipment. Products are marketed through a network of national and international distributors.

# **CLEMENTS**

#### Third-party distributorships

Medical Australia is the exclusive Australian distributor for the Sebra range of RF sealers sourced out of the US, and the Hakko cannula range sourced from Japan.

#### Care Essentials business (proposed acquisition)

Launched in 1996, the Care Essentials business was established to fill a need in the health sector for a reliable and practical technology for managing and sustaining patient body temperature before, during and after surgery. This reduces complications during surgery and improves patient recovery.

The major product lines comprise a wide range of patient warming blankets and convective warming machines.



#### **2.5.2 Our Customers**

Medical Australia products are sold to the Australian public health system on a tender basis. The Company has recently renewed state government contracts in Victoria and New South Wales, while we have been on the Queensland contract for some time, and are awaiting the results of the West Australian IV tender. The Australian private and acute public health networks account for 33% and 67% respectively of the country's healthcare system. Business within the private sector is by negotiation and our business in this sector is proportionally in line with the public versus private hospital numbers.

Most of our international business is through distribution partners. Of the company's total sales, Australia and New Zealand (ANZ) accounts for 87% for the six months to December 2009 and international 13%. However, the proportion of International sales is growing strongly.

## **2.6 Leadership Team**

Medical Australia is led by an outstanding team of directors, officers and senior managers, including:

#### **2.6.1 Directors and Officers**

- **Tom Hartigan, BCom, Chairman**  
Tom has a distinguished career spanning 50 years in corporate advisory, finance and M&A, including 25 years with ASX-listed finance and medical companies.
- **Gary Lewis, BCom, MBT, Director**  
Until recently, Gary was managing director of MLA and continues on the Board as Chairman of the M&A committee. He has 25 years experience in pharmaceuticals and medical devices, with an emphasis on business and strategy development.
- **Dr Geoff Cumming, BSc (Hons), MBA, PhD, Director**  
Geoff has 30 years experience in the biotechnology, medical and healthcare markets (Roche Diagnostic, Anteo (ASX: ADO) and Sienna Cancer Diagnostics).
- **Ian Mitchell, BA Dip Law, Director and Company Secretary**  
A practicing solicitor for over 30 years with expertise in commercial, contractual and ASIC/ASX compliance.

#### **2.6.2 Executive Management**

- **Mark Donnison, CEO**  
A sales and marketing specialist with 25 years experience in the UK and Australian pharmaceutical industries (Alphapharm, AstraZeneca, LAGAP Pharmaceuticals, Smith Kline). Mark also has experience in R&D and logistics. Prior to joining Medical Australia in October

2009, Mark was Director, National Pharmacy Business for Alphapharm, Australia's largest pharmaceutical company.

- **Greg Lewis, MBA, CFO**

Greg has 20 years experience in senior finance and operational general management roles in multinational and Australian public companies (Tyco, ITL, Stryker). Greg has completed the takeover and acquisition of over 100 companies in his career to date.

- **Michael Jones, GM Corporate Innovation**

Michael is a design engineer with 20 years in production and design of products for high volume manufacturing environments. In medical devices since 2003, Mike was previously with Resmed.

- **David Thompson, BSc (Hons), GM QARA**

David has extensive experience in QA/QC systems implementation and improvement. He joined MLA from Resmed where he worked as Director, Regulatory Affairs.

## 2.7 Financial Model

Medical Australia has disciplined, transparent and highly focused financial management revolving around key financial metrics and culminating in an operating budget for FY10 and FY11.

### 2.7.1 Key Financial Drivers

Improving sales productivity

- Increase in sales resources through Care Essentials acquisition
- Maintenance of full inventory through enhanced supply chain and increased operating capital
- Growth of UK sales team through local hires and representation
- Improved sales skills, productivity and management
- Individual sales targets reset for sales team and daily tracking implemented
- Higher penetration of existing customer base to gain a broader share of business
- Order volume targets for international distribution partners
- Expanded product offering with the commercialisation of new products currently in development

Increasing gross profit margin

- Manufacturing cost benefit from increasing volumes
- Currency rates favourable
- Investigating offshore manufacture for Clements products
- Price increase targets identified, will implement at earliest opportunity
- Care Essentials gross margin 62.5% will further enhance overall MLA gross profitability

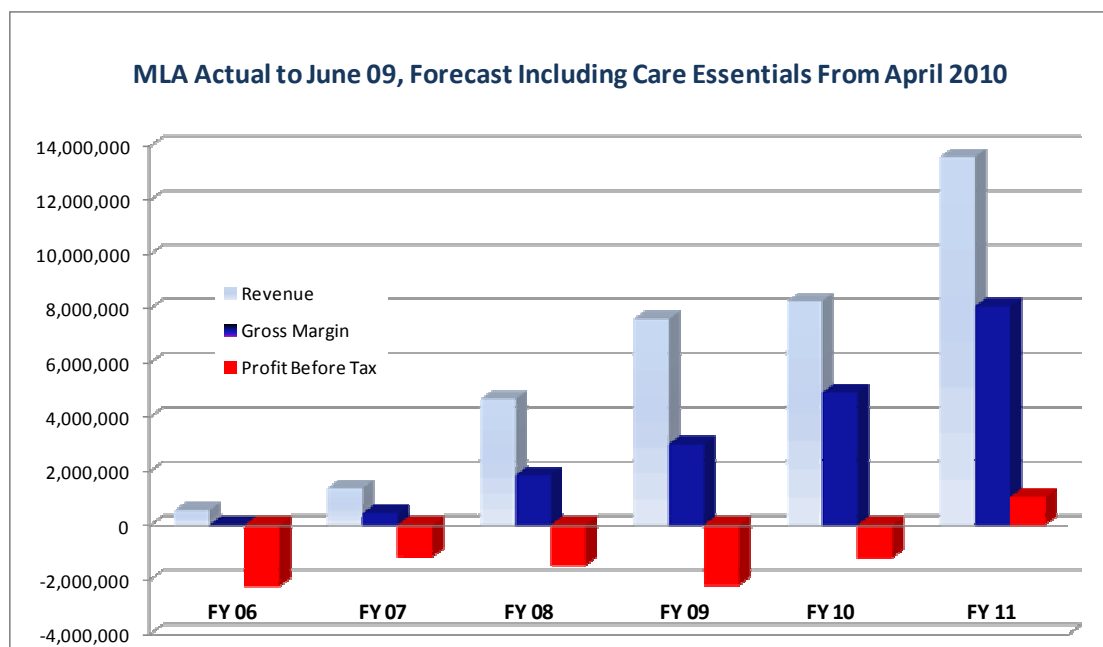
### 2.7.2 Cash Flow Expectations and P & L

PROFIT & LOSS										
SA	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10 MLA	April-June 10 Care Essential	Jun-10 Total	Jun-11 MLA	Jun-11 CE	Jun-11 Total
Revenues	547,817	1,364,286	4,657,709	7,612,308	7,464,730	800,000	8,264,730	9,521,703	4,097,500	13,619,203
Gross Margins	(23,478)	433,256	1,837,816	2,987,934	4,385,874	500,000	4,885,874	5,510,000	2,566,375	8,076,375
	-4.3%	31.8%	39.5%	39.3%	58.8%					
Govt Grants	44,935	229,792	128,710	7,616						
Admin & Consultants	(739,414)	(536,545)	(1,154,720)	(1,109,455)	(840,526)	(26,950)	(867,476)	(835,000)	(100,000)	(935,000)
Research	(184,958)	(124,974)	(56,828)	4,386	(12,000)		(12,000)	(20,000)		(20,000)
Employee Expenses	(559,545)	(428,715)	(1,292,804)	(2,372,553)	(3,431,259)	(291,500)	(3,722,759)	(3,625,000)	(1,304,775)	(4,929,775)
Travel & Accom	(156,888)	(197,309)	(179,499)	(245,605)	(227,250)	(3,000)	(230,250)	(230,000)	(25,000)	(255,000)
Occupancy	(65,577)	(82,151)	(32,322)	(448,413)	(378,204)	(18,550)	(396,754)	(385,000)	(99,100)	(484,100)
Depreciation	(46,638)	(68,060)	(50,888)	(98,046)	(131,185)		(131,185)	(135,000)		(135,000)
Impairment	(513,753)	-	(371,383)	(520,000)	-		-	0		0
Interest (Expense) / Income	42,013	15,482	7,015	(216,307)	(217,638)		(217,638)	(160,000)		(160,000)
Other	(63,536)	(424,445)	(248,529)	(221,064)	(291,557)		(291,557)	(100,000)		(100,000)
Currency Gains /(Loss)					(22,656)		(22,656)	0		0
Inventory write down			(92,314)	-	(220,115)		(220,115)	(20,000)		(20,000)
Profit / (Loss) before Tax	(2,266,839)	(1,183,669)	(1,505,746)	(2,231,507)	(1,386,516)	160,000	(1,226,516)	-	1,037,500	1,037,500
										7.6%

Although FY10 forecast sales for the existing MLA business remain in line with the previous year at around A\$7.5M, the company's focus on improving gross margins is expected to result in a lift from 39.3% FY09 to 58.8% in FY10. This would represent an improvement of 49.6%.

Loss before tax for FY10 of A\$1.34M is an improvement on FY09 A\$2.23M. Much of the FY10 shortfall is attributable to abnormal amounts and operationally the current MLA business is at break even. Post the acquisition of Care Essentials the consolidated entity will become immediately profitable.

Expected future profits and losses are believed to be made on a reasonable basis by directors and consistent with their experience of the industry. The underlying assumptions in these numbers are that the company maintains its current customer base, its current product range, its current gross margins and the current growth rate. Whilst the directors do not believe there is any present risk to the aforementioned a significant change in any of these areas could adversely affect the revenue projection. There are several projects in developmental stage (see below '2.8 Work In Progress') which may deliver greater than expected revenue and no provision has been made for these in the above estimates due to the uncertainty of successfully commercialising these projects.



CASHFLOW FORECAST including CARE ESSENTIALS from April 2010

	Dec Total	Jan Total	Feb Total	Mar Total	April Forecast	May Forecast	June Forecast	July Total Forecast	Aug Total Forecast	Sept Total Forecast	Oct Total Forecast	Nov Total Forecast	Dec Total Forecast
<b>Sales Base</b>	585,000	506,000	578,000	560,057	839,410	956,520	955,320	1,016,020	1,039,920	1,060,920	1,104,220	1,118,720	1,122,720
<b>Cash Inflows</b>													
Receivables	722,190	484,946	556,887	523,152	621,500	770,288	953,939	941,268	951,349	1,004,000	1,029,070	1,054,330	1,093,460
Other	-	-	160,000	-	250,000	250,000	5,000,000	-	-	-	-	-	-
<b>Total Inflows</b>	722,190	484,946	716,887	523,152	871,500	1,020,288	5,953,939	941,268	951,349	1,004,000	1,029,070	1,054,330	1,093,460
<b>Cash Outflows</b>													
Inventory & Materials	238,117	93,845	235,541	180,092	616,139	503,794	699,782	379,362	400,607	408,972	416,322	431,477	436,552
Payroll & Related	246,484	220,553	241,496	224,025	330,000	330,000	330,000	330,000	396,750	346,750	346,750	346,750	346,750
Facilities	49,786	16,559	23,839	41,496	57,000	58,000	58,000	58,000	58,000	58,000	58,000	58,000	58,000
Marketing	5,418	723	2,059	1,618	4,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Op. Exps & Overheads	127,779	188,527	164,519	68,072	132,000	87,000	57,000	54,000	80,000	45,000	45,000	50,000	50,000
<b>Outflows from Operating</b>	667,584	520,207	667,453	515,303	1,139,139	988,794	1,154,782	831,362	945,357	868,722	876,072	896,227	901,302
Historical Payments	11,000	-	-	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Abnormals	21,000	-	56,000	21,000	20,000	25,000	2,820,000	20,000	-	25,000	-	-	20,000
<b>Total Outflows</b>	699,584	520,207	723,453	544,303	1,167,139	1,021,794	3,982,782	859,362	953,357	901,722	884,072	904,227	929,302
<b>NET SURPLUS / DEFICIT</b>	22,606	(35,261)	(6,566)	(21,151)	(295,639)	(1,506)	1,971,157	81,906	(2,008)	102,278	144,998	150,103	164,158
<b>BANK BALANCE</b>													
Opening Balance				(367,784)	(188,935)	(484,574)	(486,080)	1,485,077	1,566,983	1,564,975	1,667,253	1,812,251	1,962,354
Net Cash Movements				(21,151)	(295,639)	(1,506)	1,971,157	81,906	(2,008)	102,278	144,998	150,103	164,158
<b>Closing Balance</b>				(388,935)	(484,574)	(486,080)	1,485,077	1,566,983	1,564,975	1,667,253	1,812,251	1,962,354	2,126,512

## 2.8 Work In Progress

Medical Australia has a number of projects underway that have the potential to deliver beneficial commercial outcomes over and above the projections reflected in the above tables. Due to the uncertainty inherent in these projects, no provision has been made for them and the numbers quoted above reflect the current sales projections to existing customers only. A summary of work in progress:

PROJECT	POSSIBLE COMMERCIAL OUTCOME
Samples of four new products are with an existing OEM customer (US multinational) for evaluation.	Sales revenue of A\$30,000 per month ongoing
Samples of a new product are with a new potential OEM customer (German multinational) for evaluation.	Sales revenue of A\$15,000 per month ongoing
We are attempting to source new products for the veterinary market. We are uncertain as to the probability of sourcing said products.	Preliminary market research indicates that this opportunity could deliver ongoing revenue of \$40,000 per month and some one-off hardware sales of up to \$1M over a 12 month period.
Uptake of Care Essentials range by existing MLA international distributors	Early indication from some of our international markets is that there is opportunity for this range to deliver up to \$100K per month in new revenue, but no certainty exists as to how long it will take to get product established in these markets, given potential regulatory hurdles and hospital trial procedures.
Agreement with Analytica (ASX:ALT) recently signed to manufacture, market and sell two new products. Full clinical evaluation and revenue projections in progress. Analytica may bring other opportunities to MLA in the future.	Preliminary clinical trials are underway at present. Full manufacturing should be underway and inventory available by August. Sales revenue will build from there, early indications are up to \$40,000 per month year one.

## 3 Company's Disclosure Obligations

As a disclosing entity the Company is subject to regular reporting and disclosure obligations and copies of all documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC Office. A shareholder has the right to obtain the latest annual financial report of the Company lodged with ASIC and any continuous disclosure notices given to ASX or ASIC by the Company thereafter. The Company will provide a copy thereof free of charge to any shareholders requesting same during the offer period. This replacement prospectus has been lodged with ASIC on 11 June 2010 to allow ASIC and the market an opportunity to consider the contents thereof before the commencement of subscriptions thereunder.

## 4 Purpose of the Offer, use of funds and Financial Statements

The purpose of this Offer is to provide the Company with funding to:

- Purchase the business, selected ascertained and intellectual property of Care Essentials
- To provide additional working capital for the Company

It is anticipated that the funds raised from this offer will be applied as follows:

Part consideration for purchase of Care Essentials business	<u>2,800,000</u>
Purchase of stock	300,000
Commissions and brokerage	230,000
Working capital	<u>812,662</u>
Costs of issue including professional fees, printing and postage	<u>25,000</u>
	<u>4,167,662</u>

It should be noted that actual expenditure may vary from the allocation of funds shown above as circumstances dictate.

The Directors consider that following completion of the Offer, the Company will have sufficient working capital to achieve its objectives set out in this Prospectus.

It should, however, be noted that an investment in the Company is speculative and investors are encouraged to read the risk factors outlined in this Prospectus.

## 5 Details of the offer

### 5.1 Offer

The Offer in this Prospectus consists of a non renounceable pro-rata offer to Eligible Shareholders of up to 277,844,152 new shares at an issue price of \$0.015 per share on the basis of 1 New Share for every Share held at 5.00pm (AEST) on the Record Date together with an attaching option to acquire one further new share in the Company for every two shares so held at \$0.02 exercisable by 14 July 2011. The Shares and Options issued under the Offer will be listed and it is intended to make application to ASX for listing thereof within 7 days after the date of this replacement Prospectus.

This offer is subject to shareholder approval at a General Meeting of the Company to be held on 15 July 2010.

As the rights to the shares and options are non-renounceable there will be no trading of such rights under this issue. Application will however be made to ASX for the listing of shares and options issued under this offer as set out above. Shareholders may not sell or transfer all or part of their entitlements to new shares and/or options.

### 5.2 How To Apply For Shares Under the Offer

Applications are to be made as follows:

- By completing and returning the Application Form accompanying the Prospectus; or
- By printing a copy of the online replacement Prospectus and completing and returning a copy of the Application Form therefrom.

The replacement Prospectus may be viewed online at [www.medaust.com](http://www.medaust.com). If you wish to obtain a free copy of the replacement Prospectus, please contact the Company.

### Method of payment

All Application Forms under the Offer must be accompanied by a cheque drawn on an Australian bank in Australian currency or by deposit of cleared funds as set out in the Application Form. Cheques must be payable to **'Medical Australia Limited – Option Offer'** and be crossed 'Not Negotiable'. No brokerage or stamp duty is payable by Applicants.

Eligible applicants may apply for their full entitlement to shares or a part thereof. There is no minimum subscription.



The Company, reserves the right to close the Offer early (or extend the Offer) without prior notice subject to the ASX Listing Rules or Corporations Act requirements. Applicants are encouraged to return their Application as soon as possible after receiving the replacement Prospectus.

Application Money received will be held by the Company on trust pursuant to Section 722 of the Corporations Act until allotment and issue of New Shares. The Company will retain the balance of the account, plus any interest earned on the account.

Completed Application Forms and Application Money under the Offer must be received before 5.00 pm Australian Eastern Standard Time (AEST) on the Closing Date. Subject to any applicable requirements of the Corporations Act or the ASX Listing Rules, the Company reserves the right to close the Offer early without prior notice. As already stated above Applications received after the close of the Offer will not be accepted. **Investors are therefore encouraged to submit their completed Application Forms as soon as possible.**

Completed Application Forms and cheques under the Offer are to be posted or delivered to the Company at its Share Registry:

**By Hand OR By Post:**

Gould Ralph Pty Limited  
Share Registry Division  
Level 42, Suncorp Place  
259 George Street  
Sydney NSW 2000  
Australia

## 5.3 Privacy Statement

If you complete an application for New Shares, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information to assess your application, service your need as a shareholder and to facilitate distribution payments and corporate communications to you as a shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that is held about you. If you wish to do so please contact the Company's share registry at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if the information required on the application for Options is not provided, the Company may not be able to accept or process your application.

## 5.4 Allocation Policy and Shortfall

Subject to Shareholder Approval the total number of New Shares that may be issued under the Prospectus is 277,844,152 and, if all shares were issued, Application Monies of \$4,167,662 would be receivable by the Company less expenses of the offer

An Application constitutes an offer to acquire New Shares on the terms and conditions set out in this Prospectus. Subject to the ASX Listing Rules and any applicable Corporations Act requirements, the Company reserves the right:

- Not to proceed with the Offer at any time before the issue of the New Shares
- To reject any Application, including but not limited to an Application that has been incorrectly completed or is accompanied by a cheque that is dishonoured.

By agreeing to consider an Application, the relevant Applicant agrees, except if Section 724 of the Corporations Act applies, that the Application is an irrevocable offer which cannot be withdrawn, unless the Applicant has a right to withdraw under the Corporations Act, the ASX Listing Rules or the Company consents.

It is the responsibility of successful Applicants to determine the number of New Shares issued to them prior to trading in New Shares. Applicants who sell New Shares before they receive their Transaction Confirmation Statement do so at their own risk.

Fractions of share will be disregarded when determining the number of shares to which an applicant is entitled pursuant to this offer.

In the event that an eligible offeree does not take up their entitlement as set out in this replacement Prospectus the offer to such offeree will lapse and those Shares will form part of the Shortfall. Shareholders who desire to participate in the distribution of the shortfall are encouraged to complete the shortfall application portion of the entitlement and acceptance form attached to this replacement prospectus.

The directors reserve the right to issue any shortfall shares at their discretion within three months of the close of the offer at a price not less than the offer price. The directors will endeavour to ensure that all shareholders who indicate that they wish to participate in taking up a portion of the Shortfall will have the opportunity to do so.

The Directors of the Company and their associates may nominate those shareholders and others who have indicated to the Directors their desire to subscribe for any shares not taken up pursuant to this offer (the shortfall). Such shareholders may include Directors.

The Directors consider that there is a possibility that up to 75% of the issue may be the subject of such subscriptions in the event that there is a shortfall in the issue.

## 5.5 Placement fee

There are no fees payable in respect of this rights issue. The directors may however pay brokerage or commissions of up to 5½% on the placement of shares forming part of the shortfall for which applicants may apply. Any such commissions will not be payable to directors or their associates.

## 5.6 Stamp duty and brokerage

Successful Applicants will not pay any stamp duty or brokerage on the issue of New Shares to them under this replacement Prospectus.

## 5.7 Jurisdiction

The jurisdiction covering this Offer is the laws in the State of New South Wales

## 5.8 Risk Factors

You should read this entire replacement Prospectus, including this section, before making any decision to invest. Investment in the New Shares should be considered as speculative and is not suitable as an investment for investors who require security of capital or income. You should consult professional investment advisors before investing. Particular risk factors attaching to this investment are:

### **5.8.1 General Economic Risks and Business Climate**

Activities of Medical Australia as in any business are subject to risks which may impact on its future performance. Medical Australia has appropriate actions, systems and safeguards for known risks; however some are outside its control. The principal risk factors are described below.

You should carefully consider the risks and uncertainties set out below and the information contained elsewhere in this Prospectus before you decide whether to accept the Offer of New Shares.

### **5.8.2 General Risks**

An investment in New Shares should be considered speculative due to a range of factors. The conduct and management of business operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There can be no assurance that the business objectives of Medical Australia will be achieved.

The New Shares do not carry any guarantee with respect to market value or the payment of dividends or return of capital. As the holding of Shares involves certain risks, persons in doubt as to the course they should follow should consult their stockbroker, solicitor, accountant or other professional advisor.

The Medical Australia Board emphasises that the risk factors set out in this Section may not be the only risk factors that could affect the operations of Medical Australia, its financial position and the value of its securities.

#### **a) Share Price Fluctuations**

There are risks associated with any stock market investment. Share prices may rise or fall and the price of shares might trade below or above an issue price. Factors which may affect the market price of shares generally include:

- Movements in Australian and international stock markets;
- Investor sentiment;
- Australian and international economic conditions and outlook;
- Changes in interest rates and the rate of inflation; and
- Changes to government regulation and policies

#### **b) General Economic Conditions**

Changes in global economic conditions (including changes in interest rates, inflation, foreign exchange rates, oil and labour costs) as well as general trends in the Australian and overseas equity markets may affect Medical Australia operations and particularly the trading price of the Shares on the ASX.

#### **c) Government Policy and Taxation**

Changes in relevant taxation laws, interest rates, other legal, legislative and administrative regimes, and government policies in Australia, may have an adverse affect on the assets, operations and ultimately the financial performance of Medical Australia and the market price of the Shares

### **5.8.3 Specific Business Risks**

An analysis of some of the specific business risks facing Medical Australia is provided below:

#### **a) Management actions**

The Directors of the Company will, to the best of their knowledge, experience and ability (in conjunction with management), endeavour to anticipate, identify and manage the risks inherent in the activities of the Company, but without assuming any personal liability for same, with the aim of

eliminating, avoiding and mitigating the impact of risks on the performance of the Company and its securities

#### **b) Additional Funding**

The future development of Medical Australia may require additional funds to be raised. In particular, the future acquisition of further business investments may require substantial additional funding. The timing and amount of the future capital requirements will depend on many factors. There is no guarantee that Medical Australia will be able to raise the capital required, or that the terms of any future raising will be favourable to existing Shareholders. In the event that Medical Australia fails to obtain adequate additional funding when needed, Medical Australia may be forced to delay or eliminate its future development activities, sell existing assets or reduce its operations.

#### **c) Contractual Risks**

Medical Australia must fulfil the terms and conditions of its existing contracts and management agreements. In the event that Medical Australia fails to perform its obligations or breaches any of the terms and conditions of such agreements, Medical Australia may suffer loss and expose itself to legal action. Further, under the terms of the various contracts to which Medical Australia or its subsidiaries are a party, there are certain rights for the other contracting parties to terminate the contracts. The performance of Medical Australia depends on the ability of Medical Australia to preserve its contractual arrangements and any failure to do so may have material adverse impact on Medical Australia operations and its financial position.

#### **d) Reliance on Key Management**

The responsibility of overseeing the day-to-day operations and the strategic management of Medical Australia is concentrated in a small management team. There can be no assurances that there will be no detrimental impact on Medical Australia if one or a number of these executives cease their employment.

#### **e) Management of Growth**

Medical Australia business is expected to grow considerably. No assurance can be given of Medical Australia's ability to manage future growth.

#### **f) Dilution**

The proportion of share capital held by individual existing shareholders in the Company may be significantly diluted to the extent that there is a shortfall in the number of shareholders accepting this offer of new shares and such shortfall is taken up by other shareholders or entities.

## **6 Shareholding Issues**

### **6.1 Principal Effects**

Assuming the Rights Issue is fully subscribed the principal effects are as follows:

- (a) The Company will issue 277,844,152 New Shares, and the total number of Shares on issue will increase to 555,688,304. The New Shares will constitute approximately 50% of the expanded issued Share capital of 555,688,304 Shares.
- (b) The Rights Issue will also result in the issue of 138,922,046 options exercisable by 14 July 2011 with a strike price of \$0.02
- (c) The Rights Issue will also increase the Company's cash reserves by approximately \$4,167,662 (before expenses of the Rights Issue) to enable the Company to proceed with proposed acquisition of Care Essentials and costs associated therewith.

- (d) Shareholders approved the issue of a total of 3,000,000 unlisted options to take up ordinary shares in the Company at 8 cents each to officers of the Company (including a former officer of the Company) exercisable by 30 June 2014.

## 6.2 Capital Structure on Completion of the Rights Issue

The pro-forma capital structure of the Company following the Rights Issue is set out below:

Shares	Number
Existing Shares	277,844,152
Maximum number of New Shares to be issued pursuant to this Offer	277,844,152
<b>Total Shares on issue after Rights Issue</b>	<b>555,688,304</b>

Options	Number
Existing Listed Options	Nil
Maximum number of Options to be issued pursuant to this Offer	138,922,046
<b>Total Listed Options on issue after Rights Issue</b>	<b>138,922,046</b>

## 6.3 Purpose of the Offer

The purpose of the Offer is to raise \$4,167,662. The proceeds of the Offer are planned to be used in accordance with the table set out below:

Item	Activity/Purpose	Full subscription
1	Acquisition of Care Essential business	<u>\$2,800,000</u>
	Purchase of Stock	\$300,000
2	Working capital	<u>\$812,662</u>
3	Expenses of the Offer	
	- Commissions and brokerage	\$230,000
	- Costs of issue	\$25,000
	<b>TOTAL</b>	<b><u>\$4,167,662</u></b>

The amounts referred to in the above table are indicative only and are estimates based on the Company's intentions at the date of this Prospectus

## 6.4 Effect of the Offer

The principal effect of the Offer, under this Prospectus, will be to increase the cash reserves of the Company by approximately \$4,167,662 immediately after completion of the Offer.

## 6.5 Pro-forma Statement of Financial Position

Set out below is an unaudited Statement of Financial Position of the Company after the completion of the Rights Issue prepared on the basis of the unaudited accounts of the Company as at 31 December 2009, and adjusted for the following transactions and assumptions:

1. The issue of 12,500,000 ordinary shares to sophisticated investors at 2 cents per share raising \$250,000 giving rise to a credit to Contributed Equity of \$250,000 and a corresponding increase in Cash.
2. The issue of 277,844,152 shares at 0.015 cents per share, pursuant to the non-renounceable rights issue raising \$4,167,662 before transaction costs of \$197,000; giving rise to a net credit to Contributed Equity of \$3,970,662 and a corresponding increase in Cash.

3. The acquisition of select Plant and Equipment and Goodwill of Care Essentials for total consideration of \$3,900,000, of which \$2,800,000 is payable upon completion, \$1,000,000 payable on 5 June 2011 and \$100,000 contingently payable upon revenue results for 12 months following completion. The fair value of plant and equipment has been assessed at \$385,000. The excess of the purchase price over the fair value of tangible assets acquired results in Goodwill on acquisition of \$3,515,000. This transaction results in an increase in Plant and Equipment of \$385,000, an increase in Goodwill of \$3,515,000, a decrease in cash of \$2,800,000 and an increase in trade and other payables of \$1,100,000.
4. The acquisition of inventories of Care Essentials at an estimated cost of \$315,000, increasing Inventories and decreasing Cash.

The Statement of Financial Position has been prepared to provide investors with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below.

The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

#### Medical Australia Ltd

#### Pro-forma Statement of Financial Position

	Consolidated 31 December 2009 (Reviewed) A\$	Consolidated 31 December 2009 Pro-forma A\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	246,482	1,210,144
Trade and other receivables	1,010,789	1,010,789
Inventories	1,311,186	1,626,186
Prepayments	18,974	18,974
<b>Total Current Assets</b>	<b>2,587,431</b>	<b>3,866,093</b>
<b>Non Current Assets</b>		
Property, plant and equipment	386,442	771,442
Intangible assets	4,431,452	7,946,452
<b>Total Non Current Assets</b>	<b>4,817,894</b>	<b>8,717,894</b>
<b>Total Assets</b>	<b>7,405,325</b>	<b>12,583,987</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	2,422,398	3,522,398
Provisions	176,528	176,528
Interest bearing loans and borrowings	1,425,814	1,425,814
<b>Total Current Liabilities</b>	<b>4,024,740</b>	<b>5,124,740</b>
<b>Non current liabilities</b>		
Interest bearing loans and borrowings	108,000	108,000
Provisions	6,891	6,891
<b>Total non current liabilities</b>	<b>114,891</b>	<b>114,891</b>
<b>Total Liabilities</b>	<b>4,139,631</b>	<b>5,239,631</b>
<b>Net Assets</b>	<b>3,265,694</b>	<b>7,344,356</b>
<b>Equity</b>		
Contributed equity	15,200,018	19,420,680
Share option reserve	91,612	91,612
Accumulated losses	(12,025,936)	(12,167,936)
<b>Total Equity</b>	<b>3,265,694</b>	<b>7,344,356</b>

## 6.6 Effects of Rights Issue on control of the Company

If all shareholders take up their entitlements under the Issue then the Issue will have no effect on the control of the Company. Because the Rights Issue is non-renounceable and it cannot be known with certainty which shareholders will take up their rights entitlements the effect on the control of Medical Australia cannot be determined at this time.

Relevant matters which may determine any such effects are:

- (i) The percentage of issued share capital held by the twenty largest shareholders in the Company.
- (ii) The number and identity of large shareholders who take up their rights entitlements
- (iii) The equity holdings associated with directors of the Company and whether the relevant rights entitlements are taken up:  
(The following directors have declared equity holdings in the Company):

	Shares	Options (exercisable at 8 cents by 30/6/14)
Tom Hartigan	5,000,000	
Gary Lewis	11,433,054	1,000,000
Geoff Cumming	160,000	500,000
Ian Mitchell	552,215	500,000

- (iv) The fact that New Shares issued pursuant to this Rights Issue will comprise 50% of the issued Share Capital of the Company after completion of the issue.

Depending on which shareholders take up their rights entitlements, and the distribution of the shortfall the ability of certain shareholders to control the Company through their voting rights as shareholders may change.

There are a number of shareholders who, if they were to take up their rights entitlements under this offer in full would become substantial shareholders. If Mr Andrew Fay and his associates were to take up their entitlement in full then his interests in the Company would exceed 20% of the issued share capital of the Company.

Because directors have the right to take-up shortfall shares arising from this offer there is a possibility that a shareholder (including a Director) may acquire a substantial shareholding in the Company by taking up some of the shortfall.

Set out hereunder is a list of those shareholders who may become substantial shareholders in the Company should they and their associates take up the whole of their entitlement under this offer:

<u>Name</u>	<u>% present holding</u>	<u>% holding if all rights entitlements taken up</u>
<u>1. Andrew Fay and his Associates</u>	<u>19.59</u>	<u>39.18</u>
<u>2. Amnicole Investments Pty Ltd</u>	<u>4.07</u>	<u>8.14</u>
<u>3. Treplo Pty Limited</u>	<u>4.07</u>	<u>8.14</u>
<u>4. Cordato Partners (Services) Pty Ltd</u>	<u>3.93</u>	<u>7.86</u>
<u>5. Three Pagodas Pty Ltd</u>	<u>3.93</u>	<u>7.86</u>
<u>6. GKI Resort Pty Ltd</u>	<u>3.12</u>	<u>6.24</u>
<u>7. Script to Screen Pty Ltd</u>	<u>2.53</u>	<u>5.06</u>

It is not possible to determine in advance which shareholders will elect to take up their rights entitlements and to what extent nor is it possible to determine which shareholders or entities will apply to take up any shortfall and to what extent.

No shareholders have indicated to Directors at this time whether they will take up any particular portion of their offer entitlements or any particular portion of any Shortfall.

The Directors do not propose to appoint any further Director to the Board as a result of this rights issue.

## 6.7 Applicants Outside Australia

This replacement Prospectus does not constitute an offer of New Shares in any jurisdiction where, or to any person to whom, it would not be lawful to issue the replacement Prospectus or make the Offer. It is the responsibility of any Applicant who is resident outside Australia to ensure compliance with all laws of any country relevant to their Application, and any such Applicant should consult their professional advisers as to whether any government or other consents are required, or whether any formalities need to be observed to enable them to apply for and be issued New Shares.

No action has currently been taken to register or qualify the New Shares or the Offer to permit a public offering of the New Shares and Options in any jurisdiction outside Australia.

## 6.8 Chess and Issuer Sponsor Holding

No share certificates will be issued to successful Applicants. Following allotment, Applicants on the issuer-sponsored sub-register will be issued a transaction confirmation statement that sets out the number of New Shares and Options allotted and the Security Holder Reference Number (SRN) allocated. Successful Applicants on the CHESS sub-register will be issued a transaction confirmation statement stating the Security Holder Identification Number (HIN) and number New Shares and Options allotted.

A statement will be routinely sent to holders at the end of any calendar month during which their holding changes. A holder may request a statement at any other time, however a charge may be incurred for additional statements.

## 7 How to invest

### 7.1 Application Form

Applications are to be made as follows:

- By completing and returning the Application Form, accompanying the replacement Prospectus; or
- By printing a copy of the online replacement Prospectus and completing and returning a copy of the Application Form therefrom

The replacement Prospectus may be viewed online at [www.medaust.com.au](http://www.medaust.com.au). If you wish to obtain a free copy of the replacement Prospectus, please contact the Company.

All Application Forms under the Offer must be accompanied by a cheque drawn on an Australian bank in Australian currency or by deposit of cleared funds to the bank account included with the Application Form. Cheques must be payable to **'Medical Australia Limited – Share Offer'** and be crossed 'Not Negotiable'. No brokerage or stamp duty is payable by Applicants. For further information please see section 4.2 above.

### 7.2 Enquiries

Investors with questions on how to complete the Application Form should contact Gould Ralph Pty Limited Share Registry Division on: +61 2 9032 3000 or contact their stockbroker or professional adviser. Copies of the online replacement Prospectus are available on [www.medaust.com](http://www.medaust.com)



## 8 Additional Information

### 8.1 Rights attaching to Shares upon Conversion of Options

Full details of the rights attaching to shares are set out in the Company's Constitution, a copy of which can be inspected, free of charge, at the Company's registered office during normal business hours.

### 8.2 Rights attaching to Options

The following is a broad summary of the rights, privileges and restrictions attaching to the Options. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

The Options to be issued under this Prospectus have the following rights attached to them:-

- The Options are options to subscribe for Shares in the Capital of the Company
- The exercise price of the Options is \$0.02 per option.
- The Options will lapse on 14 July 2011
- The Options will be transferable in whole or in part subject to the provisions of the Constitution of the Company, Corporations Act and the ASX Listing Rules.
- The Options will be vested on the date they are issued.
- The Options may be exercised wholly or in part by delivering a duly completed form of notice of exercise together with a cheque for the exercise price per Option to the Company at any time on or after the date on which the Options are issued and on or before the 14 July 2011. Reminder notices will be forwarded to each optionholder prior to the expiry date options not exercised before the Expiry Date will lapse.
- Upon the valid exercise of the Options issued under this Prospectus and payment of the exercise price, the Company will issue Shares raking pari passu with the then issued Shares of the Company.
- As noted above, the Company intends to apply for listing of the Options on the ASX.
- The Company shall apply for listing on the ASX of the resultant Shares issued upon exercise of any of the Options.
- **Reconstruction of Capital:** If during the currency of the Options the issued capital of the Company is reconstructed (including capital reductions and share consolidations and divisions), the number or nominal value of the Options to which the holder is entitled will be reconstructed in the same proportion as the issued capital of the Company is reconstructed in accordance with the ASX Listing Rules but in all respects the term of the exercise of the Options shall remain unchanged. Where appropriate the exercise price of the Options will be revised in accordance with the ASX Listing Rules.
- **Bonus Issue:** If there is a bonus issue to the holders of the ordinary Shares of the Company, the number of ordinary Shares over which the Option is exercisable will be increased by the number of ordinary Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.
- **Rights Issue:** If the Company makes a rights issue (other than a bonus issue), the exercise price of Options on issue will be reduced accordingly as set out in the ASX listing rules.
- **Participating Rights and Entitlements:** The Options carry no right (without exercising the Options) to participate in rights issues which may be offered by the Company to its Shareholders after the date of the issue of the Options or in dividends. However, the Company must give prior notice to the Option holders of any new issue before the record date for determining entitlements to the issue in accordance with ASX Listing Rules and Option holders have the right to exercise the Options prior to the record date for determining entitlements.
- **Amendments:** Despite anything else contained in these terms to the contrary, the terms and conditions may be changed by the Company to the extent it reasonably considers to be necessary to comply with the ASX Listing Rules, particularly as they may apply to a

reconstruction or reorganisation of the capital of the Company at the time of reorganisation or reconstruction.

### **8.3 Voting Rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares (at present there are none), at meetings of Shareholders of the Company:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, shall have such number of votes as bears the same proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited).

### **8.4 Rights on Winding Up**

Subject to the rights of holders of shares with special rights in a winding up (at present there are none), on a winding up of the Company all assets that may be legally distributed among members will be distributed in proportion to the number of fully paid shares held by them (and a partly paid share is counted as a fraction of a fully paid share equal to the amount paid on it, divided by the total issue price of the share).

### **8.5 Transfer of Shares**

Subject to the Constitution of the Company, the Corporations Act 2001, and any other laws and ASTC Settlement Rules and ASX Listing Rules, shares are freely transferable.

### **8.6 Future Increases in Capital**

The allotment and issue of any Shares is under the control of the Directors. Subject to restrictions on the allotment of Shares to Directors or their associates, the ASX Listing Rules, the Constitution of the Company and the Corporations Act 2001, the Directors may allot or otherwise dispose of Shares on such terms and conditions as they see fit.

### **8.7 Variation of Rights**

Under the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares. If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of the issue of the Shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued Shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the Shares of that class.

### **8.8 Dividend Rights**

Subject to the rights of holders of Shares issued with special, preferential or qualified rights (at present there are none), the profits of the Company, which the Directors determine to distribute by way of dividend, are divisible among the holders of ordinary fully paid Shares in proportion to the number of Shares held by them.

## 8.9 Interests of Directors of the Company

No Director holds, or during the last two years has held any interest in:

1. the formation or promotion of the Company;
2. property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offer; or
3. the Offer, and no amounts of any kind (whether in cash, Shares or otherwise) have been paid or agreed to be paid to any Director to induce him to become or to qualify as a Director or otherwise for services rendered by him in connection with the formation or promotion of the Company or the Offer.

## 8.10 Directors' Shareholdings

The Directors are not required to hold any Shares in the Company under the Constitution. As at the date of this replacement Prospectus, the Directors (either personally or through associates) have interest in the Shares as follows:

Director	Shares		Options (exercisable at 8 cents by 30/6/14)	
	Direct	Indirect	Direct	Indirect
Tom Hartigan		5,000,000		
Gary Lewis		11,433,034	1,000,000	
Geoff Cumming	160,000		500,000	
Ian Mitchell	552,215		500,000	

Nothing in this replacement Prospectus will be taken to preclude Directors, officers or employees of the Company from applying for the issue of New Shares under this replacement Prospectus or to take up any shortfall in subscription for such new shares

## 8.11 Taxation

The acquisition and disposal of New Shares and Options in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for New Shares and the issue of New Shares under this replacement Prospectus.

## 8.12 Litigation

The Company is not involved in any material litigation or arbitration proceedings save as disclosed below, nor, so far as the Directors are aware, are any other such proceedings pending or threatened against the Company.

The group is in dispute with a former supplier in Thailand regarding a claim of \$390,000 for goods manufactured and supplied. This amount has been recognised in the financial statements as a trade 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. The directors believe they will be successful in claiming these offsets, however as the amount cannot be measured reliably at the date of this report and is subject to litigation, no amount has been recognised in the financial statements for this contingent asset. The Company is defending proceedings in relation to this dispute.

Separately, the group is also claiming damages against two parties, the former supplier referred to above and a competitor with respect to breaches of confidentiality, breaches of non-compete with

and passing off BMDI products. The claim relates to products with the BMDi trade mark being imported and sold in Australia. The claim covers loss of market share, loss of profits and other matters. The quantum of these claims 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. The court case is expected to be heard in the second half of this year.

## 8.13 Electronic Prospectus

Pursuant to Class Order 00/044 ASIC has exempted compliance with certain provisions of the Corporations Act 2001 to allow distribution of an electronic Prospectus and electronic application form on the basis of a paper Prospectus lodged with ASIC, and the publication of notices referring to an electronic Prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this replacement Prospectus as an electronic Prospectus, please ensure that you have received the entire replacement Prospectus accompanied by the Application Form. If you have not, please email the Company at [mthirtle@websters.net.au](mailto:mthirtle@websters.net.au) and the Company will send you, either a hard copy or a further electronic copy of the replacement Prospectus or both free of charge. Alternatively, you may obtain a copy of the replacement Prospectus from the Company's website at [www.medaust.com](http://www.medaust.com)

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement Prospectus or any of those documents were incomplete or altered.

## 8.14 Consents

The following consents have been given in accordance with Section 716 of the Corporations Act and have not been withdrawn as at the date of lodgement of this replacement Prospectus with ASIC:

Gould Ralph Assurance has given, and has not withdrawn its written consent to be named as Auditor to the Company in this replacement Prospectus. Gould Ralph Assurance has not authorised or caused the issue of this replacement Prospectus or the making of the Offer.

Gould Ralph Pty Limited Share Registry Division has given and has not withdrawn its written consent to being named as the Share Registrar in this replacement Prospectus. Gould Ralph Pty Limited has not authorised or caused the issue of this replacement Prospectus or the making of the offer.

## 8.15 Expenses and Commissions

It is estimated that the Company will pay the following approximate costs (exclusive of GST) in connection with the preparation and issue of this replacement Prospectus:

<b>Expenses of the Offer</b>	<b>Amount (\$A)</b>
ASIC/ASX fees	\$5,000
Professional fees (accounting, consultants and other)	\$10,000
Printing and postage	\$5,000
Miscellaneous	\$5,000
<b>Total</b>	<b>\$25,000</b>

## 8.16 Interpretation

In this replacement Prospectus, unless the context otherwise requires:-

- References to appendices are references to appendices to this replacement Prospectus and such appendices form part of this replacement Prospectus.
- References to Sections are a reference to sections of this replacement Prospectus unless referable to sections of particular legislation.

- The singular includes to plural and vice-versa.

## 8.17 Directors' Authorisation

The Directors state that:-

- (a) They have made all enquiries that were reasonable in the circumstances and on that basis believe, on reasonable grounds, that any statements made by them in the replacement Prospectus are not misleading or deceptive.
- (b) In respect to any other statements made in this replacement Prospectus by persons other than the Directors:-
  - (i) They have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statement or statements.
  - (ii) Those persons have given the consents required by Section 716(2) of the Corporations Act and have not withdrawn that consent before lodgement of this replacement Prospectus with ASIC.

In accordance with Section 720 of the Corporations Act, each Director has consented in writing to the lodgement of this replacement Prospectus with ASIC, and has not withdrawn that consent and its issue has been authorised by a resolution of Directors:

This replacement Prospectus is prepared on the basis that:-

- (a) Certain matters may be reasonably expected to be known by likely investors, or their professional advisors, being of the kind with whom likely investors may reasonably be expected to consult.
- (b) Various information will be known by likely investors, or their professional advisors, by virtue of the Acts or laws of the States or Territories of Australia and the Commonwealth of Australia.

Signed for and on behalf of Medical Australia Limited

Tom Hartigan  
Chairman  
Dated: 11 June 2010

## 9. Glossary

**AEST** means Australian Eastern Standard Time, Sydney, New South Wales

**Applicant** means a person who submits an Application.

**Application** means a valid application to subscribe for New Shares pursuant to this replacement Prospectus

**Application Form** means the application form attached to and included with this replacement Prospectus.

**Application Monies** means monies received by the Share Registry or the Company from Applicants.

**ASIC** means the Australian Securities and Investment Commission.

**ASTC** means the ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532).

**ASX** means the Australian Securities Exchange Limited (ACN 008 624 691).

**Board** means the board of Directors unless the context indicates otherwise.

**Business Day** means a day other than a Saturday or Sunday on which banks are open for business in Sydney, NSW.

**Care Essentials** means Care Essentials Pty Limited (ACN 072 827 019)

**CHES** means ASX Clearing House Electronic Sub-registry System.

**Closing Date** means the date on which the Offer closes.

**Company** or **the Company** means Medical Australia Limited (ACN 096 048 912).

**Corporations Act** means the Corporations Act 2001 (Commonwealth).

**Directors** mean the directors of the Company from time to time and include any alternate directors.

**Dollars** or **\$** means Australian dollars unless otherwise stated.

**Exposure Period** means the period of seven (7) days after the date of lodgement of this replacement Prospectus, which period may be extended by the ASIC by not more than seven (7) days pursuant to Section 727(3) of the Corporations Act 2001.

**GST** has the meaning given to it in the A New Tax System (Goods and Services Tax) Act 1999 and any regulations to it or such other act or regulations of equivalent effect.

**Listing Rules** means the official Listing Rules of the ASX.

**Medical Australia** means Medical Australia Limited (ACN 096 048 912)

**New Shares** means the shares issued pursuant to this replacement Prospectus

**Offer** means the offer of Shares pursuant to this replacement Prospectus.

**Offer Period** means the period commencing on the Opening Date and ending on the Closing Date.

**Opening Date** means the date on which the Offer opens.

**Option** means the right to acquire a New Share on payment of the exercise price namely \$0.02 cents

**Replacement Prospectus** means this replacement Prospectus dated 11 June 2010 for the issue of 277,844,152 new shares including any electronic or online version.

**Quotation** means quotation of the Shares on ASX.

**Record Date** means 26 July 2010

**Relevant Company** means the Company and each subsidiary of the Company within the meaning of the Corporations Act.

**Section** means a section of this replacement Prospectus.

**Share** means one fully paid ordinary share in the Company.

**Shareholder** means a holder of Shares.

**Share Registry** means Gould Ralph Pty Limited Share Registry Division

**Shortfall** means those shares for which the entitlement lapses.