

# MEDICAL AUSTRALIA LIMITED

A.B.N. 30 096 048 912

## Appendix 4D

Australian Securities Exchange Listing Rules Disclosure

### Half year report

**For the period ending 31 December 2011**

Compared to prior half year period 31 December 2010

## Results for announcement to the market

### ENTITY RESULTS

	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>Change \$</b>	<b>Change %</b>
Revenue from ordinary activities	4,801,333	4,611,485	189,848	Increase 4.1%
(Loss)/profit from ordinary activities after tax attributable to members	(367,092)	134,753	(501,845)	N/A
Net (loss)/profit for the period attributable to members	(367,092)	134,753	(501,845)	N/A

### UK SUBSIDIARY

A UK subsidiary, BMDI Tuta Healthcare UK Ltd, was incorporated on 20 December 2011 to capitalise on the human and animal health market in the UK and Europe. It is 100% owned by Medical Australia Limited.

### DIVIDENDS

No interim dividend was declared for the period ended 31 December 2011.

### EXPLANATION OF RESULTS

Please refer to the half year commentary for an explanation of the results.

### NET TANGIBLE ASSETS PER SECURITY

	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Net Tangible Assets per ordinary share</b>	0.20 cents	0.07 cents



**MEDICAL AUSTRALIA LIMITED**

**A.B.N. 30 096 048 912**

**INTERIM FINANCIAL REPORT**

**FOR THE HALF YEAR ENDED**

**31 DECEMBER 2011**

**Lodged with the ASX under Listing Rule 4.2A.**

**This information should be read in conjunction with the 30 June 2011 Annual Report.**

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

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

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**DIRECTORS**

Mr Gary Lewis (Chairman)

Mr Mark Donnison (CEO)

Mr Ian Mitchell

Dr Geoff Cumming

**COMPANY SECRETARY**

Mr Ian Mitchell

**REGISTERED OFFICE**

Level 11, 37 Bligh Street

SYDNEY NSW 2000 Australia

Phone: +61-2 9466 5300 Fax: +61-2 9922 7165

**PRINCIPAL OFFICE**

Level 17, 275 Alfred Street

NORTH SYDNEY NSW 2060

Phone: +61-2 9466 5300 Fax: +61-2 9922 7165

**AUDITORS**

Gould Ralph Assurance

Level 42, Suncorp Place

259 George Street

SYDNEY NSW 2000

Phone: +61-2 9032 3000 Fax: +61-2 9032 3088

**SHARE REGISTRY**

Boardroom Pty Limited

Level 7, 207 Kent Street

SYDNEY NSW 2000

Phone: +61-2 9290 9600 Fax: +61-2 9279 0664

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

**C o n t e n t s**

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# MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report For the half year ended 31 December 2011

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Your directors submit their directors' report together with the consolidated financial report of the Company, being Medical Australia Limited and its controlled entities, for the half year ended 31 December 2011, and the auditor's review report thereon.

### Directors

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

Gary Lewis (Chairman)	Director since 10 January 2012
Thomas J. Hartigan	Chairman from 3 March 2010 to 30 November 2011
Ian Burnham Mitchell	Director since 6 November 2008
Mark Donnison	Director since 30 June 2011
Dr. Geoff Cumming	Director since 23 January 2009

### Review of Operations

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

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

Medical Australia has also entered the animal health market and is positioned to penetrate the growing veterinary and equine sectors in the UK. To support its focus, Medical Australia has established a laboratory in order to conduct its research and development activities and support our customers.

### **(a) Financial Results**

The consolidated result for the six months to 31 December 2011 highlights revenues of \$4,801,333, which was 4% up on the corresponding half year period.

Gross Margin for the period to December 2011 was \$2,600,190 which declined by \$124,567 in comparison to the period to December 2010. The Group is focused on reviewing its selling prices, product mix and its terms with key suppliers in order to improve profitability.

Overheads for the period to December 2011 were \$333,118 higher than the period to December 2010. The main areas of change were an increase in legal expenses of \$71,283, increased depreciation of \$70,079 and higher travel and accommodation of \$81,913. The Group will ensure that cost control remains a priority for the next six months.

The Group recorded a statutory loss of \$367,092 for the period. The incurrence of non-operational legal expenses of \$147,904 for the period contributed to the loss.

# MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report For the half-year ended 31 December 2011

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The Group is well funded with cash and cash equivalents of \$1,095,139. The Group also raised equity funds of \$1,222,217 via the issue of shares during the period ended 31 December 2011.

The Group's net assets increased from \$4,375,005 at June 2011 to \$5,251,182 at December 2011 primarily as a result of increased cash and cash equivalents and decreased interest bearing liabilities.

### **(b) Operational Results**

- Key achievements

A UK subsidiary was incorporated in December 2011 with a view to growing the human and animal health market in the region. A laboratory is being set up in the UK for the purpose of processing and cryogenically freezing stem cells for the animal health market. Progress updates will be released in due course. The subsidiary will also provide the Group with leverage into the vast and untapped markets in Europe.

During the period, the Group has set up an American Depository Receipts (ADR) program to attract investors in the US on the over-the counter (OTC) market. The Group is determined to grow its investor base in order for it to have sustainable growth in the future.

- Key relationships

The Group has continued to build on its relationship with key stakeholders including its critical suppliers of goods and services, OEM partners, financial and legal partners, and most importantly our shareholders.

The Group remains very focused on growing both the local and international markets and is pursuing aggressive growth strategies in order to increase its market share.

The Group is constantly reviewing its supply chain in order to improve its efficiency to its customers. The Directors are committed to providing excellent quality products to its customers on a timely basis however only at acceptable gross margins.

### **Events Subsequent to Balance Date**

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

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

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half year ended 31 December 2011.

Signed in accordance with a resolution of the board of directors.

G Lewis  
Chairman

Dated this 28<sup>th</sup> day of February 2012

**Chartered Accountants**

ABN 74 632 161 298  
Level 42, Suncorp Place  
259 George Street  
Sydney NSW 2000  
Australia  
**T: +61 2 9032 3000**  
F: +61 2 9032 3088  
E: [mail@gouldralph.com.au](mailto:mail@gouldralph.com.au)  
W: [www.gouldralph.com.au](http://www.gouldralph.com.au)

28 February 2012

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

TO THE DIRECTORS OF MEDICAL AUSTRALIA LIMITED

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

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2011, there have been:

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

GOULD RALPH ASSURANCE  
Chartered Accountants

GREGORY C RALPH, M.COM, FCA  
Partner

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

Consolidated Statement of Comprehensive Income  
For the half year ended 31 December 2011

		Consolidated	
	Notes	31 December 2011 \$	31 December 2010 \$
<b>Revenue from sale of goods</b>		4,801,333	4,611,485
Cost of goods sold		<u>(2,201,143)</u>	<u>(1,886,728)</u>
<b>Gross margin</b>		2,600,190	2,724,757
 Expenses:			
Administration and consultants		(318,808)	(325,814)
Depreciation and amortisation		(133,699)	(63,620)
Employee expenses		(1,681,049)	(1,628,503)
Travel and accommodation		(166,221)	(84,308)
Occupancy costs		(212,769)	(174,044)
Advertising and marketing		(49,117)	(16,995)
Other expenses		<u>(335,912)</u>	<u>(271,173)</u>
<b>(Loss)/profit before interest and tax</b>		<u>(297,385)</u>	<u>160,300</u>
 Financial income		15,339	7,970
Financial expense		<u>(85,046)</u>	<u>(110,009)</u>
<b>Net financing loss</b>		<u>(69,707)</u>	<u>(102,039)</u>
 <b>(Loss)/profit before related income tax</b>		(367,092)	58,261
Income tax benefit		<u>-</u>	<u>76,492</u>
 <b>(Loss)/profit for the period</b>	3	<u>(367,092)</u>	<u>134,753</u>
 Other comprehensive income after tax		<u>-</u>	<u>-</u>
<b>Total comprehensive (loss)/income for the period</b>		<u>(367,092)</u>	<u>134,753</u>
Basic (loss)/earnings per share attributable to ordinary shareholders (cents per share)		<u>(0.08) cents</u>	<u>0.04 cents</u>
Diluted (loss)/earnings per share attributable to ordinary shareholders (cents per share)		<u>(0.08) cents</u>	<u>0.04 cents</u>

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

**Consolidated Statement of Financial Position**  
**As at 31 December 2011**

		<b>Consolidated</b>	
	<b>Notes</b>	<b>31 December 2011</b>	<b>30 June 2011</b>
		<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,095,139	828,297
Trade and other receivables		998,660	966,924
Inventories		848,520	889,833
Prepayments		71,938	14,672
<b>TOTAL CURRENT ASSETS</b>		<u>3,014,257</u>	<u>2,699,726</u>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		382,970	340,086
Intangible assets	4	<u>4,356,080</u>	<u>4,378,714</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u>4,739,050</u>	<u>4,718,800</u>
<b>TOTAL ASSETS</b>		<u>7,753,307</u>	<u>7,418,526</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		1,102,506	1,427,112
Interest bearing liabilities	5	549,570	616,419
Provisions		<u>251,475</u>	<u>239,333</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,903,551</u>	<u>2,282,864</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities	5	588,460	751,283
Provisions		<u>10,114</u>	<u>9,374</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>598,574</u>	<u>760,657</u>
<b>TOTAL LIABILITIES</b>		<u>2,502,125</u>	<u>3,043,521</u>
<b>NET ASSETS</b>		<u>5,251,182</u>	<u>4,375,005</u>
<b>EQUITY</b>			
Issued capital	6	18,472,061	17,249,844
Equity remuneration reserve		131,410	110,358
Accumulated losses		<u>(13,352,289)</u>	<u>(12,985,197)</u>
<b>TOTAL EQUITY</b>		<u>5,251,182</u>	<u>4,375,005</u>

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

**Consolidated Statement of Changes in Equity**

**For the half year ended 31 December 2011**

	Issued Capital	Equity Remuneration Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
<b>Balance as at 1 July 2010</b>	15,602,018	100,936	(12,642,474)	3,060,480
Profit for the period	-	-	134,753	134,753
Equity contributions during the period	1,502,529	-	-	1,502,529
Cost of share based payments	-	9,480	-	9,480
Share issue costs	(22,341)	-	-	(22,341)
<b>Balance as at 31 December 2010</b>	17,082,206	110,416	(12,507,721)	4,684,901
<b>Balance as at 1 July 2011</b>	17,249,844	110,358	(12,985,197)	4,375,005
(Loss) for the period	-	-	(367,092)	(367,092)
Equity contributions during the period	1,222,217	-	-	1,222,217
Cost of share based payments	-	21,052	-	21,052
<b>Balance as at 31 December 2011</b>	18,472,061	131,410	(13,352,289)	5,251,182

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

**Consolidated Statement of Cash Flows**  
**For the half year ended 31 December 2011**

	<b>Consolidated</b>	
	<b>31 December 2011</b>	<b>31 December 2010</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	4,781,603	4,394,556
Cash paid to suppliers and employees	<u>(5,095,627)</u>	<u>(4,799,883)</u>
Cash generated (used by) operations	(314,024)	(405,327)
Interest paid	(69,885)	(110,009)
Interest received	<u>4,252</u>	<u>7,970</u>
<b>Net cash (used) in operating activities</b>	<u>(379,657)</u>	<u>(507,366)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for plant and equipment	<u>(157,853)</u>	<u>(85,002)</u>
<b>Net cash (used) in investing activities</b>	<u>(157,853)</u>	<u>(85,002)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	958,734	1,259,920
Proceeds from borrowings	-	500,000
Repayments of borrowings	<u>(154,382)</u>	<u>(308,067)</u>
<b>Net cash provided by financing activities</b>	<u>804,352</u>	<u>1,451,853</u>
Net increase in cash held	266,842	859,485
Cash and cash equivalents at beginning of the period	<u>828,297</u>	<u>(176,622)</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>1,095,139</u>	<u>682,863</u>

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

Notes to the half year financial statements

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**1. Significant accounting policies**

**Statement of compliance**

These general purpose consolidated financial statements for the interim half year reporting period ended 31 December 2011 have been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting", and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards.

The half year financial report does not include all notes of the type normally included within the annual financial report, and therefore, cannot be expected to provide as full an understanding of the statement of comprehensive income, statement of financial position and financing and investing activities of the economic entity as a full financial report.

This half year report should be read in conjunction with the Annual Financial Report of Medical Australia Limited for the year ended 30 June 2011 and any public announcements made by Medical Australia Limited and its controlled entities during the half year ended 31 December 2011, in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

**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 statutory loss of \$367,092 and incurred negative cash flows from operations of \$379,657 for the half year ended 31 December 2011. Accumulated losses were \$13,352,289 as at that date. Additionally the Group breached its bank covenants in relation to its long term loan facility (refer to Note 5 – Interest Bearing Liabilities) and is currently involved in a legal dispute with a former supplier which is expected to go to trial in mid 2012.

These conditions give rise to a material uncertainty that may cast doubt upon the ability of the Group to continue as a going concern. The ongoing operation is dependant upon:

- i) the Group achieving cash flow positive trading operations from its existing businesses
- ii) arranging extension or the replacement of the existing bank facilities beyond 31 December 2012
- iii) achieving a satisfactory resolution to the legal dispute with the former supplier

Management has prepared a cash flow forecast for the 15 months ending March 2013 that supports the ability of the entity to continue as a going concern. These cash flow projections assume a 15% increase in sales and the extension of the bank loan facility. The cash flow points to a positive cash position at the end of March 2013. The Directors are presently satisfied that the projected cashflow will be achieved.

Having regard to the above factors the Directors recognise that a 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 Group not continue as a going concern.

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

**Notes to the half year financial statements**

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**Basis of Preparation**

The consolidated financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. All amounts are presented in Australian dollars, unless otherwise noted.

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2011.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half year financial statements.

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

Notes to the half year financial statements

**2. Segment information**

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

<b>Geographical segments 31 December 2011</b>	<b>Australia \$</b>	<b>New Zealand \$</b>	<b>Asia \$</b>	<b>Unallocated \$</b>	<b>Consolidated \$</b>
<b>Revenue</b>					
External segment income	3,868,886	193,093	465,627	273,727	<u>4,801,333</u>
<b>Result</b>					
Segment result	(176,391)	(8,815)	(21,257)	(12,725)	<u>(219,188)</u>
Legal expenses	(147,904)	-	-	-	<u>(147,904)</u>
<b>Net loss</b>	<u>(324,295)</u>	<u>(8,815)</u>	<u>(21,257)</u>	<u>(12,725)</u>	<u>(367,092)</u>

<b>Assets</b>					
Segment assets	7,657,608	-	-	95,699	<u>7,753,307</u>
Including non-current assets acquired during the year:					
Plant and equipment	53,480	-	-	95,699	149,179
	<u>53,480</u>	<u>-</u>	<u>-</u>	<u>95,699</u>	<u>149,179</u>
<b>Segment liabilities</b>	<u>2,502,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,502,125</u>

<b>Geographical segments 31 December 2010</b>	<b>Australia \$</b>	<b>New Zealand \$</b>	<b>Asia \$</b>	<b>Unallocated \$</b>	<b>Consolidated \$</b>
<b>Revenue</b>					
External segment income	4,044,412	21,144	545,929	-	<u>4,611,485</u>
<b>Result</b>					
Segment result	142,758	740	19,107	-	<u>162,605</u>
Miscellaneous income	22,277	-	-	-	22,277
Legal expenses	(76,621)	-	-	-	(76,621)
Deposit written off	(50,000)	-	-	-	(50,000)
Tax refund	76,492	-	-	-	76,492
<b>Net profit</b>	<u>114,906</u>	<u>740</u>	<u>19,107</u>	<u>-</u>	<u>134,753</u>

<b>Assets</b>					
Segment assets	7,378,421	-	-	-	<u>7,378,421</u>
Including non-current assets acquired during the year:					
Plant and equipment	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Segment liabilities</b>	<u>2,693,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,693,520</u>

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

Notes to the half year financial statements

**2. Segment information (cont'd)**

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

**3. (Loss)/profit for the period**

	<b>Consolidated</b>	
	<b>31 December 2011</b>	<b>31 December 2010</b>
	<b>\$</b>	<b>\$</b>

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

Revenue

Research and development income tax credit	-	76,492
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Expense

Legal expenses relating to dispute with former supplier	147,904	76,621
Write-down for slow moving stock and redundant inventory	-	29,309
Deposit written off	-	50,000
	<u>147,904</u>	<u>155,930</u>

**4. Intangible Assets**

	<b>Consolidated</b>	
	<b>31 December 2011</b>	<b>30 June 2011</b>
	<b>\$</b>	<b>\$</b>
Goodwill – TUTA Healthcare	3,409,564	3,409,564
Goodwill on acquisition – Clements	701,151	701,151
	<u>4,110,715</u>	<u>4,110,715</u>
Product Development Costs – Gross	359,179	359,179
Less: Accumulated amortisation	(113,814)	(91,180)
Product Development Costs - net	<u>245,365</u>	<u>267,999</u>
	<u><u>4,356,080</u></u>	<u><u>4,378,714</u></u>

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 being 8 years. As at 31 December 2011, specific Product Development Costs capitalised as intangible assets had a carrying value of \$245,365 (30 June 2011: \$267,999).

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

Notes to the half year financial statements

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**5. Interest bearing liabilities**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2011</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Bank loan - secured (i)	332,000	416,000
Loans – secured	217,570	200,419
<b>Total</b>	<u>549,570</u>	<u>616,419</u>
<b>Non-current</b>		
Loans – secured	<u>588,460</u>	<u>751,283</u>

(i)The interest coverage, minimum EBITDA covenants stipulated within the bank loan agreement were not met as at 31 December 2011 by BMDI Tuta Healthcare Pty Ltd. However, the bank has no intention of calling in the facilities at the date of this report in light of the Group's positive future outlook and abnormal income statement adjustments (legal fees) that affected the loss for the period ended 31 December 2011. The next review date for this facility is 31 December 2012.

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

Notes to the half year financial statements

**6. Issued capital**

Fully paid ordinary shares	Consolidated			
	31 December 2011		31 December 2010	
	Number	\$	Number	\$
Balance at the beginning of the half year	392,564,953	17,249,844	277,844,152	15,602,018
Shares issued on 24 August 2010 at \$0.015 per share	-	-	52,144,138	782,162
Shares issued on 24 August 2010 at \$0.015 per share	-	-	3,333,333	50,000
Shares issued on 24 August 2010 at \$0.00 per share (i)	-	-	6,933,335	-
Shares issued on 26 August 2010 at \$0.015 per share	-	-	15,015,272	225,229
Shares issued on 30 September 2010 at \$0.015 per share	-	-	15,001,300	225,020
Shares issued on 30 September 2010 at \$0.03 per share	-	-	607,292	18,219
Shares issued on 16 November 2010 at \$0.015 per share	-	-	12,233,333	183,500
Shares issued on 24 December 2010 at \$0.012 per share	-	-	1,533,334	18,400
Options exercised at \$0.02 per share in July 2011	47,239,183	944,784	-	-
Options exercised at \$0.02 per share in August 2011	3,000,000	60,000	-	-
Options underwritten at \$0.02 per share in August 2011	10,871,698	217,433	-	-
Less share issue costs	-	-	-	(22,342)
Balance at the end of the half year	453,675,834	18,472,061	384,645,489	17,082,206

(i) Shares issued for nil consideration as they relate to rights issue adjustment.

**7. Contingent Asset and Liability**

Contingent Liability

The Group is in dispute with a former supplier in Thailand regarding a claim amounting to \$318,929 for goods manufactured and supplied. Whilst the liability has been recognised, the Directors believe the amount owing to the supplier should be offset by further product charges, travel and freight costs incurred by the Group in connection with the supply amounting to \$208,969. These charges have been disputed by the supplier. The Directors believe they will be successful in claiming these offsets. Accordingly a net \$109,960 has been recognised in the financial statements as a trade and other payable. The amount ultimately payable, if any, will be subject to the claim for damages outlined under "Contingent Assets" below.

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

**Notes to the half year financial statements**

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**7. Contingent Asset and Liability (cont'd)**

*Contingent Asset*

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 contingent assets have not been recognised in the financial statements as the amount of the claim cannot be measured reliably at the date of this financial report and is subject to litigation. The trial case is likely to be held in mid-2012.

**8. Related Parties**

During the period, the Group issued 2,500,000 options to Mr Mark Donnison, Managing Director, with an exercise price of \$0.05 per option expiring on 14 July 2014 resulting in an expense of \$10,250 for the period. There have been no other significant related party transactions since 30 June 2011. All transactions with related parties are conducted on normal commercial terms and conditions.

**9. Events Subsequent to Balance Date**

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

**10. UK Subsidiary**

A UK subsidiary, BMDI Tuta Healthcare UK Ltd, was incorporated on 20 December 2011 via the issue of 100 fully paid ordinary shares at £1 per share (AUD equivalent of \$152). The UK entity aims to capitalise on the human and animal health market in the UK and Europe. It is 100% owned by Medical Australia Limited. At acquisition the entity had no net assets as it was newly incorporated.

**MEDICAL AUSTRALIA LIMITED  
AND ITS CONTROLLED ENTITIES**

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

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In the opinion of the Directors of Medical Australia Limited:

- (a) the financial statements and notes set out on pages 6 to 16, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the financial half year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including AASB 134 – Interim Financial Reporting), (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 28<sup>th</sup> day of February 2012  
in accordance with a resolution of the Board of Directors:

G Lewis  
Chairman

**Chartered Accountants**

ABN 74 632 161 298  
Level 42, Suncorp Place  
259 George Street  
Sydney NSW 2000  
Australia

**T: +61 2 9032 3000**

F: +61 2 9032 3088

E: [mail@gouldralph.com.au](mailto:mail@gouldralph.com.au)

W: [www.gouldralph.com.au](http://www.gouldralph.com.au)

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

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Medical Australia Limited and its controlled entities, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the Medical Australia Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with *the Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Medical Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## *Matters Relating to Electronic Publication of the Reviewed Financial Report*

This review report relates to the financial report of Medical Australia Limited and its controlled entity's for the half year period ended 31 December 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 review 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 reviewed financial report to confirm the information contained in this website version of the financial report.

## *Independence*

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

## *Conclusion*

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

## *Emphasis of Matter*

Without modifying our conclusion expressed above, we draw attention to Note 1 'Going Concern' in the financial statements, which identifies that the consolidated entity incurred a loss of \$367,092, with negative cash flows from operations of \$379,657 for the half-year ended 31 December 2011 and had accumulated losses of \$13,352,289 as at that date. These conditions, along with other matters set forth in Note 1 'Going Concern', indicates the existence of a material uncertainty that casts doubt about the consolidated entity's ability to continue as a going concern.

GOULD RALPH ASSURANCE  
Chartered Accountants

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

Dated this 28th day of February 2012