

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 2014

Compared to prior half-year period 31 December 2013

Results for announcement to the market

ENTITY RESULTS

	31 December 2014	31 December 2013	Change \$	Change %
Revenue from ordinary activities	7,593,618	5,287,171	2,306,447	43.6%
Profit/(Loss) from ordinary activities after tax attributable to members	419,976	(139,464)	559,440	401%
Net profit/(loss) for the period attributable to members	419,976	(139,464)	559,440	401%

DIVIDENDS

No interim dividend was declared for the period ended 31 December 2014.

EXPLANATION OF RESULTS

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

NET TANGIBLE ASSETS PER SECURITY

	31 December 2014	31 December 2013
Net Tangible Assets per ordinary share	4.22 cents	3.5 cents



MEDICAL AUSTRALIA LIMITED

A.B.N. 30 096 048 912

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2014

Lodged with the ASX under Listing Rule 4.2A.

This information should be read in conjunction with the 30 June 2014 Annual Report.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Corporate Directory

DIRECTORS

Mr Bruce Hancox (Chairman)
Mr Ian Mitchell
Dr Geoff Cumming
Mr Jeremy Delk
Mr Gary Lewis (retired 6 November 2014)

CHIEF EXECUTIVE OFFICER

Mr Darryl Ellis (appointed 2 December 2014)

COMPANY SECRETARY

Mr Ian Mitchell

REGISTERED OFFICE

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SYDNEY NSW 2000 Australia
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PRINCIPAL OFFICE

Unit 4B 128-130 Frances Street
LIDCOMBE NSW 2141
Phone: +61-2 9466 5300 Fax: +61-2 9922 7165

AUDITORS

Gould Ralph Assurance
Level 29, Suncorp Place
259 George Street
SYDNEY NSW 2000
Phone: +61-2 9032 3000 Fax: +61-2 9032 3088

SOLICITORS

Websters
Level 11, 37 Bligh Street
SYDNEY NSW 2000 Australia
Phone: +61-2 9233 2688 Fax: +61-2 9233 3828

SHARE REGISTRY

Gould Ralph Pty Limited
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**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

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**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Directors' Report
For the half-year ended 31 December 2014**

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 2014, and the auditor's review report thereon.

Directors

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

Bruce Hancox (Chairman)	Director since 12 February 2014
Ian Burnham Mitchell	Director since 6 November 2008
Dr. Geoff Cumming	Director since 23 January 2009
Jeremy Delk	Director since 25 February 2014
Gary Lewis	Retired 6 November 2014

Review of Operations

Medical Australia Limited is a medical technology company with activities across both the human and the animal healthcare markets.

Operating primarily in the human healthcare market, the Company is 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.

In December 2013, the Company acquired Medivet Pty Ltd, which offered a broad range of animal health products including regenerative stem cell treatments, both in Australia and the United States. The Medivet business is now fully integrated into the Company's supply chain and back office functions.

On 13 October 2014, the Company announced it would undertake a non-renounceable rights issue of one ordinary share for each share held, at a price of \$0.06 per share. On 12 November 2014 the Company advised that 34,626,780 shares had been issued pursuant to the rights issue, raising a total of \$2,077,607. These funds are to be applied to pursuing strategic opportunities, investment in the business, in particular funding growth of the animal stem cell business and to strengthen working capital.

(a) Financial Results

The consolidated result for the six months to 31 December 2014 highlights revenue of \$7,593,618 (2013: \$5,287,171), an increase of 44% on the prior period. Of this increase in revenue, human health sales increased by \$966,380 or 19%, whilst revenue from the animal health business was \$1,558,680 in the reporting period ending 31 December 2014 (2013: \$218,613).

Gross margin in the reporting period was \$3,923,977 (2013: \$2,714,309) whilst % gross margin was 51.7% (2013: 51.3%). The strength of the Company's margins is pleasing considering the Company's exposure to US dollar denominated cost of goods and the declining value of the Australian dollar relative to the US dollar. Contributing to the level of margins achieved are cost savings in the area of logistics and a continued focus on all costs by management. The inclusion in the reporting period of sales of various high margin animal health products is also a factor. The margins achieved in the

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Directors' Report
For the half-year ended 31 December 2014**

reporting period are particularly encouraging given the fact that cost of sales includes almost \$150,000 in one off inventory adjustments associated with the animal health business.

The Group recorded a profit of \$419,976 after non-controlling interest for the reporting period (2013: loss of \$139,464).

Overheads for the period to December 2014 were \$869,830 higher than the comparative period to December 2013. The comparative period however includes less than one month of overheads for Medivet. Overheads in the human health business on a prior period comparative basis are however well down.

The Company also continues to focus on its balance sheet with inventory down \$114,661 from June 2014 and trade and other payables also down \$359,769 in the same period. Trade and other receivables have increased by \$266,095 however this is attributable to substantially higher sales revenue in December 2014 compared to June 2014, rather than any deterioration in debtor ageing.

(b) Operational Results

Key achievements

- Continuation of strong turnaround in the operations and profitability of the human health business
- Human health sales force now fully operational following a number of new hirings
- New product introduced to market in under 4 months
- New OEM partnerships in place
- Regenerative medicine sales force in the US substantially increased, trained and active in the marketplace
- R&D efforts in the US increased and focused on areas with potential for near term commercial outcomes

The Group continues to leverage off its close relationships with key suppliers of goods and services to maintain its reputation for quality products.

The Group remains focused on growing both the local and international markets and is pursuing aggressive growth strategies in order to increase its market share via the application of innovative product development and best practice supply chain management.

Directors and management reaffirm their commitment to providing excellent quality products to its human and animal health customers on a timely basis and at acceptable gross margins to the Company.

Events Subsequent to Balance Date

Following a review of the animal health business, the Company has taken the decision to streamline the range of products it offers and has decided to exit the equine products business to concentrate its efforts on the regenerative medicine business within the animal health market. There are no other events or transactions that have arisen in the interval between the end of the period and the date of this report of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

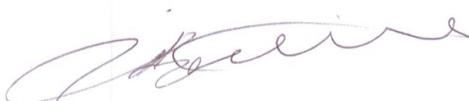
**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Directors' Report
For the half-year ended 31 December 2014**

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

The Lead Auditor's Independence Declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 31 December 2014.

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



Ian Mitchell
Director

Dated this 27th day of February 2015

Chartered Accountants

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27 February 2015

The Board of Directors
Medical Australia Limited
Unit 4B, 128-130 Frances Street
LIDCOMBE NSW 2141

Dear Directors

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

As lead audit partner for the review of the financial statements of Medical Australia Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours sincerely
GOULD RALPH ASSURANCE



STEPHEN FISHER
Partner

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**
Condensed Consolidated Statement of
Comprehensive Income

For the half-year ended 31 December 2014

	Notes	Consolidated	
		31 December 2014	31 December 2013
		\$	\$
Sale of goods		7,593,618	5,287,171
Cost of goods sold		(3,669,641)	(2,572,862)
Gross profit		<u>3,923,977</u>	<u>2,714,309</u>
Expenses:			
Administration and consultants		(592,313)	(520,963)
Advertising and marketing		(127,578)	(7,744)
Depreciation and amortisation		(91,332)	(93,447)
Employee benefits expenses		(1,957,624)	(1,269,249)
Occupancy costs		(154,299)	(434,857)
Other		(417,500)	(308,518)
Travel and accommodation		(311,161)	(147,198)
Profit/(loss) before interest and income tax		<u>272,170</u>	<u>(67,667)</u>
Financial income		17,539	2,468
Financial expense		(7,059)	(97,230)
Net financing income/(loss)		<u>10,480</u>	<u>(94,762)</u>
Profit/(loss) before income tax		282,650	(162,429)
Income tax (expense) benefit		(963)	24,947
Profit/(loss) for the period	3	<u>281,687</u>	<u>(137,482)</u>
Non-controlling interest		(138,289)	(1,982)
Net profit/(loss) for the period after non-controlling interest		<u>419,976</u>	<u>(139,464)</u>
Profit/(loss) for the period	3	281,687	(137,482)
Other comprehensive income after income tax			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences on translating foreign operation		(244,012)	(72,434)
Total comprehensive income/(loss) for the period		<u>37,675</u>	<u>(209,916)</u>
Net profit/(loss) attributable to			
Owners of the parent entity		419,976	(139,464)
Non-controlling interest		(138,289)	1,982
		<u>281,687</u>	<u>(137,482)</u>

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**
Condensed Consolidated Statement of
Comprehensive Income

For the half-year ended 31 December 2014

**Total comprehensive income/ (loss) attributable
to**

Owners of the parent entity	266,167	(211,898)
Non-controlling interest	(228,492)	1,982
	<u>37,675</u>	<u>(209,916)</u>

Basic profit/(loss) per share attributable to ordinary shareholders (cents per share)	<u>0.39 cents</u>	<u>(0.26) cents</u>
Diluted profit/(loss) per share attributable to ordinary shareholders (cents per share)	<u>0.39 cents</u>	<u>(0.26) cents</u>

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Condensed Consolidated Statement of Financial
Position

As at 31 December 2014

		December 2014	Consolidated June 2014
	Notes	\$	\$
CURRENT ASSETS			
Cash and cash equivalents		3,089,711	1,757,258
Trade and other receivables		1,880,775	1,614,680
Inventories		2,029,608	2,144,269
Current tax receivables		26,096	26,096
Other assets		599,369	459,733
TOTAL CURRENT ASSETS		7,625,559	6,002,036
NON-CURRENT ASSETS			
Property, plant and equipment		336,621	314,956
Investment		116,244	103,379
Intangible assets	4	5,765,956	5,720,100
TOTAL NON-CURRENT ASSETS		6,218,821	6,138,435
TOTAL ASSETS		13,844,380	12,140,471
CURRENT LIABILITIES			
Trade and other payables		1,974,790	2,334,559
Interest bearing liabilities		8,467	8,113
Provisions		231,372	242,188
TOTAL CURRENT LIABILITIES		2,214,629	2,584,860
NON-CURRENT LIABILITIES			
Trade and other payables		-	110,359
Interest bearing liabilities		7,600	9,517
Provisions		89,921	28,137
TOTAL NON-CURRENT LIABILITIES		97,521	148,013
TOTAL LIABILITIES		2,312,150	2,732,873
NET ASSETS		11,532,230	9,407,598
EQUITY			
Issued capital	5	26,753,918	24,676,311
Equity remuneration reserve		146,370	137,020
Non-controlling Interest		(715,902)	(487,410)
Foreign Currency translation reserve		(207,106)	(53,297)
Accumulated losses		(14,445,050)	(14,865,026)
TOTAL EQUITY		11,532,230	9,407,598

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Condensed Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2014

	Issued capital	Equity Remuneration Reserve	Foreign Currency Translation Reserve	Non- controlling Interest	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	18,476,311	131,410	(30,199)	-	(14,970,267)	3,607,255
(Loss) for the period	-	-	-	-	(139,464)	(139,464)
Other comprehensive income	-	-	(72,434)	-	-	(72,434)
Total comprehensive (loss)	-	-	(72,434)	-	(139,464)	(211,898)
Equity contributions	6,200,000	-	-	-	-	6,200,000
Non-controlling interest on acquisition	-	-	-	(383,282)	-	(383,282)
Balance at 31 December 2013	24,676,311	131,410	(102,633)	(383,282)	(15,109,731)	9,212,075
Balance at 1 July 2014	24,676,311	137,020	(53,297)	(487,410)	(14,865,026)	9,407,598
Profit for the period	-	-	-	(138,289)	419,976	281,687
Other comprehensive income	-	-	(153,809)	(90,203)	-	(244,012)
Total comprehensive profit	-	-	(153,809)	(228,492)	419,976	37,675
Equity contributions	2,077,607	9,350	-	-	-	2,086,957
Non-controlling interest on acquisition	-	-	-	-	-	-
Balance at 31 December 2014	26,753,918	146,370	(207,106)	(715,902)	(14,445,050)	11,532,230

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Condensed Consolidated Statement of
Cash Flows

For the half-year ended 31 December 2014

	Consolidated	
	31 December 2014	31 December 2013
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	7,640,017	4,945,716
Payments to suppliers and employees	(8,246,860)	(5,472,043)
Interest paid	-	(78,537)
Interest received	7,715	2,243
	(599,128)	(602,621)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(75,907)	(42,063)
Payments for intangibles	(68,809)	-
Other (cash balance for acquired business)	-	142,360
	(144,716)	100,297
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,077,607	4,000,000
Repayments of borrowings	-	(880,512)
	2,077,607	3,119,488
Net increase in cash and cash equivalents	1,333,763	2,617,164
Cash and cash equivalents at the beginning of the period	1,757,258	129,134
Net foreign exchange differences from translation of cash and cash equivalents	(1,310)	-
	3,089,711	2,746,298
Cash and cash equivalents at the end of the period	3,089,711	2,746,298

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These general purpose consolidated financial statements for the interim half-year reporting period ended 31 December 2014 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 operating, 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 2014 and any public announcements made by Medical Australia Limited and its controlled entities during the half-year ended 31 December 2014, in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

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 2014.

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.

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

NOTE 2 - SEGMENT REPORTING

The Group operates in the animal health sector since the acquisition of Medivet Australia Pty Ltd.

Business unit segments 31 December 2014	Human Health \$	Animal Health \$	Elimination \$	Consolidated \$
Revenue				
External segment income	6,034,938	1,558,680	-	7,593,618
Interest income	17,539	-	-	<u>17,539</u>
				<u>7,611,157</u>
Interest expense	6,405	654	-	7,059
Depreciation expense	68,186	23,146	-	91,332
Tax expense	-	963	-	963
Result				
Segment result	897,938	(616,251)	-	<u>281,687</u>
Net profit/(loss)	<u>897,938</u>	<u>(616,251)</u>	-	<u>281,687</u>
Assets				
Segment assets	14,153,587	1,079,009	(1,388,216)	<u>13,844,380</u>
Including non-current assets acquired during the period:				
Warehouse Equipment	26,023	-	-	26,023
Furniture & Fittings	43,392	-	-	43,392
Plant & Equipment	6,490	-	-	6,490
Intangible Assets	-	68,809	-	68,809
	<u>75,905</u>	<u>68,809</u>	-	<u>144,714</u>
Segment liabilities	<u>1,617,334</u>	<u>1,695,124</u>	<u>(1,000,308)</u>	<u>2,312,150</u>

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 2 - SEGMENT REPORTING (Cont'd)

The Group operates wholly within the human and animal health care industry in Australia, New Zealand, Asia, UK & USA.

Geographical segments 31 December 2014	Australia	Asia	United States	United Kingdom	Elimination	Consolidated
	\$	\$	\$	\$	\$	\$
Revenue						
External segment income	5,336,854	288,831	1,244,121	170,067	553,745	7,593,618
Interest income	17,539	-	-	-	-	17,539
						<u>7,611,157</u>
Result						
Segment result	556,732	30,131	(335,556)	(27,387)	57,767	<u>281,687</u>
Net profit/(loss)	<u>556,732</u>	<u>30,131</u>	<u>(335,556)</u>	<u>(27,387)</u>	<u>57,767</u>	<u>281,687</u>
Assets						
Segment assets	14,946,745	-	838,497	207,005	(2,147,867)	<u>13,844,380</u>
Including non-current assets acquired during the period:						
Warehouse Equipment	26,023	-	-	-	-	26,023
Furniture & Fittings	43,392	-	-	-	-	43,392
Plant & Equipment	6,490	-	-	-	-	6,490
Intangible Assets	-	-	68,809	-	-	68,809
	<u>75,905</u>	<u>-</u>	<u>68,809</u>	<u>-</u>	<u>-</u>	<u>144,714</u>
Segment liabilities	<u>307,568</u>	<u>-</u>	<u>2,623,703</u>	<u>1,040,839</u>	<u>(1,659,960)</u>	<u>2,312,150</u>

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 2 - SEGMENT REPORTING (Cont'd)

Geographical segments 31 December 2013	Australia \$	New Zealand \$	Asia \$	United Kingdom \$	United States \$	Elimination \$	Consolidated \$
Revenue							
External segment income	4,378,227	221,686	172,737	195,178	149,072	170,271	5,287,171
Interest income	2,468	-	-	-	-	-	2,468
							<u>5,289,639</u>
Result							
Segment result	34,909	1,768	1,377	(174,728)	(2,165)	1,358	<u>(137,482)</u>
Net profit/(loss)	<u>34,909</u>	<u>1,768</u>	<u>1,377</u>	<u>(174,728)</u>	<u>(2,165)</u>	<u>1,358</u>	<u>(137,482)</u>
Assets							
Segment assets	16,905,011	-	-	163,082	507,277	(4,817,050)	<u>12,758,320</u>
Including non-current assets acquired during the year:							
Furniture & Fittings	131,722	-	-	-	89,959	-	221,681
Plant & Equipment	6,364	-	-	-	-	-	6,364
	<u>138,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,959</u>	<u>-</u>	<u>228,044</u>
Segment liabilities	<u>12,046,198</u>	<u>-</u>	<u>-</u>	<u>848,101</u>	<u>1,498,852</u>	<u>(10,846,906)</u>	<u>3,546,245</u>

Division of the Group's results and assets into geographical segments has been ascertained by direct identification of revenue cost centres. Asia includes China, India, Indonesia, Malaysia, Singapore and Thailand and primarily represents sales of components to our suppliers. There are no intersegment revenue transactions. The major products are IV systems, safety, blood banking, surgical, anaesthesia and animal stem cell products.

Business unit segment results are not presented for 2013 as the animal health business was only acquired in December 2013.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 3 – RESULTS FOR THE PERIOD

	Consolidated	
	31 December 2014	31 December 2013
	\$	\$
The following expense items are relevant in explaining the financial performance for the period:		
Due diligence costs	-	24,000
Capital raising costs	-	106,293
Investor relation costs	-	38,241
Legal fees	103,615	-
	103,615	-

NOTE 4 – INTANGIBLE ASSETS

Goodwill – TUTA Healthcare	3,409,564	3,409,564
Goodwill on acquisition – Clements	400,000	400,000
Goodwill on acquisition – Medivet Pty Ltd	1,781,604	1,781,604
	5,591,168	5,591,168
Product Development Costs – Gross	427,988	359,179
Less: Accumulated amortisation	(253,201)	(230,247)
Product Development Costs - net	174,787	128,932
	5,765,955	5,720,100

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, that period currently assessed at 8 years. As at 31 December 2014, specific Product Development Costs capitalised as intangible assets had a carrying value of \$174,787 (30 June 2014: \$128,932).

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 5 – ISSUED CAPITAL

Fully paid ordinary shares	Consolidated			
	31 December 2014		31 December 2013	
	Number	\$	Number	\$
Balance at the beginning of the half-year	102,059,251	24,676,311	453,925,832	18,476,311
Share consolidation: 10 shares into 1 share	-	-	(408,533,248)	-
Shares issued on 6 December 2013 at fair value of \$0.06 per share	-	-	36,666,667	2,200,000
Shares issued on 10 December 2013 at \$0.20 per share	-	-	20,000,000	4,000,000
Shares issued in consideration of services performed in December 2013 at nil consideration	50,000	-	-	-
Shares issued to ex-employee in December 2013 at nil consideration	30,000	-	-	-
Fully paid ordinary shares issued in November 2014 at \$0.06 per share following non-renounceable rights issue	34,626,780	2,077,607	-	-
	<u>136,766,031</u>	<u>26,753,918</u>	<u>102,059,251</u>	<u>24,676,311</u>
Balance at the end of the half-year				

Issued capital as at 31 December 2014 amounted to \$26,753,918 (136,766,031 ordinary fully paid shares).

NOTE 6 – BUSINESS COMBINATIONS

Acquisition of Medivet Pty Ltd

On 9 December 2013, the Group acquired 100% of the ordinary shares of Medivet Pty Ltd (“Medivet”), an Australian private company which operates in the animal health sector, specialising in animal stem cell research. Medivet has controlling interests in Medivet Laboratory Services Australia Pty Ltd and two US based companies, Medivet America LLC and Medivet Direct.

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Medivet Pty Ltd and its subsidiaries for the entire half-year period covered by this report and from the acquisition date for the comparative half-year period.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 6 – BUSINESS COMBINATIONS (Cont'd)

The fair values of identifiable assets and liabilities of Medivet Pty Ltd and its subsidiaries at the date of acquisition were:

	Fair value recognised on acquisition \$
Assets	
Property, plant and equipment	205,574
Cash and cash equivalents	123,057
Inventory	692,555
Debtors	410,860
Other receivables and prepayments	104,600
Total Assets	1,536,646
Liabilities	
Trade and other payables	(413,072)
Borrowings	(416,500)
Provisions and other liabilities	(756,856)
Total liabilities	(1,586,428)
Total identifiable net assets at fair value	(49,782)
Non-controlling interest	468,178
Goodwill arising on acquisition	1,781,604
Purchase consideration transferred (i)	2,200,000
	\$
Net cash acquired with the subsidiary (included in cash flows from investing activities)	123,057
Cash paid	-
Net cash inflow	123,057

The fair value of receivables amounts to \$410,860.

(i) The purchase consideration comprised of 36,666,667 fully paid ordinary shares in Medical Australia Limited

From the date of acquisition to the end of the comparative half-year reporting period, Medivet and subsidiaries contributed revenue of \$218,614 and a profit of \$17,466 from the continuing operations of the Group.

The goodwill recognised is primarily attributed to synergies available to the new group and the quite considerable market potential represented by the US market. The goodwill is not deductible for income tax purposes. Transaction costs of \$24,000 have been expensed and are included in administration and consultant expense in the Statement of Comprehensive Income and are part of operating cash flows in the Statement of Cash Flows for the comparative half year.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 6 – BUSINESS COMBINATIONS (Cont'd)

Shareholders will note that at the Company's 2013 AGM, a resolution for the purchase of 100% of the shares in Medivet Pty Ltd ("Medivet") was carried. Under the Sale and Purchase Agreement with the vendors, the nominal value of the MLA shares to be transferred to Medivet shareholders in consideration for Medivet shares, was \$0.30 per share. The implied value of the transaction on that basis was \$11,000,000.

The half year and full year financial statements of MLA are required to be prepared and presented in accordance with Australian Accounting Standards. The approach and treatment of acquisitions where consideration is in the form of equity does not allow the nominal value of \$0.30 per MLA share to be used in valuing the transaction. The prescribed approach where equity is the form of consideration which is being exchanged, is to measure the fair value of the consideration with reference to the fair value of the net assets being acquired, unless that fair value cannot be estimated reliably.

Following the approach required under the abovementioned accounting standards, the independent valuer's calculations, albeit based on historic performance rather than forward looking factors, have been used to determine the fair value of the net assets being acquired and therefore the value of the consideration, the shares in MLA, that were issued to the vendors of Medivet.

NOTE 7 – DIVIDENDS

No dividends have been declared or paid during the current period or the prior period.

NOTE 8 – RELATED PARTIES

Included within the Condensed Consolidated Statement of Financial Position under trade and other payables current, is an amount payable to Medivet Trading Company Ltd of \$242,115. Jeremy Delk, a director of Medical Australia Limited, is a director and shareholder of this entity. Purchases of product from Medivet Trading Company Ltd were \$3,754 in the period. In addition, Medivet America has a commercial rental agreement with an entity controlled by Mr. Delk covering office premises. The amount paid in the reporting period in respect of rent was \$32,325. At the reporting date there were no amounts due to Mr. Delk.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the half-year financial statements

NOTE 9 – FINANCIAL INSTRUMENTS

One of the Group’s financial assets is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of this financial asset was determined, in particular the valuation technique and inputs used.

Financial asset/liabilities	Fair value as at		Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 Dec 14	30 Jun 14				
Private equity investment – 8.1% shareholding in Equine Sports Science Institute LLC	\$42,672	\$39,321	Level 3	Discounted cashflow	Long-term revenue growth, new products	The higher the revenue growth and the better the acceptance of new products, the higher the fair value
Private equity investment - Medivet Lexington	\$73,571	\$64,058	Level 3	Discounted cashflow	Long-term revenue growth, new products	The higher the revenue growth and the better the acceptance of new products, the higher the fair value

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

NOTE 10 – EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Company has taken the decision to streamline the range of products offered in its animal health business and will be ceasing sales of its equine range of products in the second half of the current financial year. The assets which are to be subject to sale are equine inventory products, equine debtors and fixed assets. The reportable business segment where these assets are carried is animal health and the geographic segments are Australia and the United States. The decision to divest of the equine range of products is a strategic one and allows the Company to focus on its regenerative medicine business within the animal health sector. It is expected that the sale will be concluded before 31 March 2015.

There are no other events or transactions which have arisen in the interval between the end of the financial period and the date of this report, of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

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

In the opinion of the Directors of Medical Australia Limited:

- (a) the financial statements and notes set out on pages 7 to 20, 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 2014 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 Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 27th day of February 2015
in accordance with a resolution of the Board of Directors:



Ian Mitchell
Director

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MEDICAL AUSTRALIA LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medical Australia Limited and its controlled entities, which comprises the condensed consolidated statement of financial position as at 31 December 2014, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed 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 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 internal controls as the directors determine are 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 2014 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 and the entities it controlled during the half-year, 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 entities for the half-year period ended 31 December 2014 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

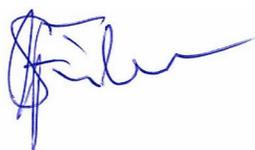
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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 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 2014 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*.

GOULD RALPH ASSURANCE
Chartered Accountants



STEPHEN FISHER
Partner
Sydney

Dated this 27th day of February 2015