# EASTLAND MEDICAL SYSTEMS LTD

**ABN: 35 090 987 250**

**Annual Financial Report For The Year Ended 30 June 2009**

# EASTLAND MEDICAL SYSTEMS LTD

## CORPORATE DIRECTORY

2009

| | | |
|---|---|---|
| DIRECTORS | MR PETER JOOSTE QC | NON-EXECUTIVE DIRECTOR & CHAIRMAN |
| | MR DERMOT PATTERSON | EXECUTIVE DIRECTOR & CHIEF EXECUTIVE OFFICER |
| | MR MICHAEL STEWART | NON-EXECUTIVE DIRECTOR |
| COMPANY SECRETARY | MR DERMOT PATTERSON | |
| REGISTERED OFFICE | EASTLAND MEDICAL SYSTEMS LTD<br>ABN 35 090 987 250 | |
| | 54 LINDSAY STREET<br>PERTH WA 6000 | PO Box 8027<br>Perth Business Centre WA 6849 |
| | TELEPHONE | (08) 9436 9500 |
| | FACSIMILE | (08) 9436 9505 |
| | EMAIL | eastland@eastlandmedical.com.au |
| | WEBSITE | www.eastlandmedical.com.au |
| SHARE REGISTRY | ADVANCED SHARE REGISTRY SERVICES | |
| | 150 STIRLING HIGHWAY<br>NEDLANDS WA 6009 | PO Box 1156<br>Nedlands WA 6909 |
| | TELEPHONE | (08) 9389 8033 |
| | FACSIMILE | (08) 9389 7871 |
| AUDITORS | GRANT THORNTON (WA) PARTNERSHIP<br>LEVEL 1, 10 KINGS PARK ROAD<br>WEST PERTH WA 6005 | |
| | TELEPHONE | (08) 9480 2000 |
| | FACSIMILE | (08) 9322 7787 |
| BANKERS | WESTPAC BANKING CORPORATION<br>CORPORATE BANKING<br>109 ST GEORGES TERRACE<br>PERTH WA 6000<br>TELEPHONE | |
| HOME STOCK EXCHANGE | AUSTRALIAN SECURITIES EXCHANGE LTD<br>EXCHANGE PLAZA<br>2 THE ESPLANADE<br>PERTH WA 6000 | |
| | LISTING CODE : ORDINARY SHARES | EMS |
| | ORDINARY OPTIONS | EMSO |
| | ORDINARY OPTIONS | EMSOB |

# EASTLAND MEDICAL SYSTEMS LTD
# AND CONTROLLED ENTITIES

## 30 June 2009

**ABN: 35 090 987 250**

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Eastland Medical Systems LTD
ACN 090 987 250

# Chairman's Report

Dear Fellow Stakeholders,

On behalf of Eastland Medical Systems Ltd and the Board it is my pleasure to present your Company's Annual Report for the year ended 30 June 2009.

The past year has been busy and rewarding, and we are happy to report success in a number of areas:

- Successful completion of a $6.4 million capital raising
- Successful audit of trial facilities for ArTiMist™ in Africa
- Preparations for Clinical Field Trials and Regulatory Approval of ArTiMist™ in Africa
- Rationalisation of domestic operations
- HC Berlin Pharma AG's successful listing on the Frankfurt Exchange
- Consolidation of African operations

**ArTiMist™:** With Phase I successfully completed, our appointed consultants ProtoPharma Ltd have recently concluded their audits of the clinical trial facilities in Africa. They have progressed to produce clinical trial protocols. Our immediate task is to advance steadily on the required fronts towards the significant "milestone" of commencement and completion of the final Clinical Trials in Africa.

**Domestic Operations:** The Board decided during the financial year to rationalise the Company's investment in non-core domestic operations. There has been encouraging interest in all businesses listed for sale and negotiations are ongoing.

**Outlook:** With the achievements and restructuring made over the past 12 months bedded down, Eastland Medical Systems Ltd is well positioned to continue on the focussed course it has set, and will enter the coming year with enthusiasm. Your Board is committed to conclude the Clinical Trials and progress to a full commercialisation of ArTiMist™. This project, which bears the hallmarks of a "Company Maker", will, once successful, not only bring a new and effective malaria treatment to the market, but imperatively create value for our stakeholders.

On behalf of the Board I take this annual opportunity to thank everybody who helped make 2008/09 a successful year for Eastland Medical Systems Ltd, including staff, consultants and advisers. To our stakeholders I say thank you for your continuing support and interest. The Board looks forward to making 2009/10 another rewarding year for your Company.

**Peter Jooste QC**
**Chairman**
**Eastland Medical Systems Ltd.**

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Perth 6000
Western Australia

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Western Australia

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Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 30 June 2009.

The names of directors for Eastland Medical Systems Ltd in office at any time during or since the end of the year are:

Mr Peter Jooste QC
Mr Dermot Patterson
Mr Michael Stewart (Appointed 11th June 2009)
Mr Peter Tiede (Resigned 10th March 2009)
Mr David Whitelaw (Resigned 10th March 2009)
Mr Douglas Sims (Resigned 9th June 2009)

## Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group during the financial year were:
• pharmaceutical development;
• medical devices and consumables distribution.

The following significant changes in the nature of the principal activities occurred during the financial year:
• the consolidated group purchased the remaining shareholding in Star Medical (Botswana) Limited.

There were no other significant changes in the nature of the consolidated group's principal activities during the financial year.

## Operating Results and Review of Operations for the year

### Operating Results

The loss of the consolidated group amounted to $3,168,182. This represents a 68% improvement on the result reported for the year ended 30 June 2008. The significant improvement was largely attributable to impairment losses recognised in the previous year of $6,187,669. Further discussion of the Group's operations now follows.

### Review of Operations

During the 2008/09 financial year Eastland Medical Systems Ltd has focused its attention on four key areas:

(i) Improving the performance of its two domestic operations Medical Industries Australia (NSW) and Westcoast Surgical and Medical Supplies (WA), to allow for value to be restored into the businesses as a prelude for their disposal as has been highlighted previously. Through the efforts of management, particularly that of MIA, our Eastern State business has achieved a significant improvement in its operating performance.

(ii) Ensuring that the Company's two pharmaceutical projects - ArTiMist™ and NiCoSorb™ - continued to progress along the path of commercialisation. Through our contracted project consultants ProtoPharma Limited (UK) headed by Mr Calvin Ross, the individual projects have advanced in their respective laboratory development, with particular focus on the anti malaria treatment ArTiMist™ which is expected to be our first project to move to market.

(iii) Strengthening the Company's balance sheet. During the year the Company has engaged the equity market to improve our financial position to ensure that it would be able to have the required funding to support its projects. While the financial environment has been challenging, the Company recently announced the successful raising of $6.4 million, which has allowed debt reduction, improved working capital and continued funding for our pharmaceutical projects.

(iv) Organisational restructure to improve efficiency and reduce costs.

### Financial Position

The net assets of the consolidated group have decreased by $1,667,487 from 30 June 2008 to $8,842,200 in 2009.

The directors believe the group is in a strong and stable financial position to further progress its pharmaceutical products to commercialisation in the current financial year. The anticipated sale of the groups distribution segments will further enhance the current stable position of the group. The group's working capital, being current assets less current liabilities, has improved from $900,235 in 2008 to $2,075,481 in 2009.

### Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(i) On 15th July 2008 the Company issued the first tranche of 500,000 fully paid ordinary shares to Calvin Ross at an issue price of $0.15 cents per share in terms of the ArTiMist™ Technical Agreement dated December 2006, and 13,347 fully paid ordinary shares at an issue price of $0.30 cents per share to A Tite in consideration for the increased share holding in Star Medical Botswana Limited.

(ii) On 15th August 2008 the Company issued Unsecured Convertible Notes of $1.00 to the value of $218,540

(iii) On 27th August 2008 the Company issued 4,662,603 fully paid ordinary shares at $0.14 cents per share and 4,662,603 Options exercisable at $0.20 cents expiring 31st May 2011 to sophisticated investors of RM Capital. These allotments raised $676,077 before expenses.

(iv) On 27th August 2008 the Company issued 652,764 free ordinary listed Options exercisable at $0.20 cents expiring 31st May 2011 to RM Capital in terms of their mandate dated 8 August 2008.

(v) On 31st August 2008 500,000 unlisted Options EMSAM exercisable at $0.15 cents and 339,500 EMSAO exercisable at $0.20 cents expired.

(vi) On 2nd September 2008 the Company issued Unsecured Convertible Notes of $1.00 to the value of $180,000.

(vii) On 21st October 2008 the Company issued 805,000 ordinary fully paid shares in the Company, at an issue price of $0.14 cents per share and 805,000 Options exercisable at $0.20 cents expiring 31st May 2011 to sophisticated investors of RM Capital Pty Ltd (RM Capital) (AFSL 221938) for a value of $116,725 before broker expenses.

(viii) On the 21 October 2008 the Company issued 112,700 free ordinary listed options exercisable at $0.20 cents expiring 31st May 2011 in the Company, to RM Capital Pty Ltd (RM Capital) (AFSL 221938) in terms of the RM Capital Mandate dated 8th August 2008

(viiii) On the 21 October 2008 the Company issued 500,000 ordinary listed options exercisable at $0.20 cents expiring 31st May 2011 in the Company, at an issue price of $0.05 cents per option. The issue of these Options to Barron's Court Pty Ltd.

(x) On the 21 October 2008 the Company issued 447,000 free ordinary listed options exercisable at $0.20 cents expiring 31st May 2011 in the Company to Monterra Pty Ltd.

(xi) On 22nd October 2008 the Company confirms the German Associate Company HC Berlin Pharma AG was admitted to the Frankfurt Stock Exchange.

(xii) On 29 October 2008 the Company issued 80,000 ordinary fully paid shares in the Company following the request from an Unsecured Convertible Note Holder to convert 10,000 Notes at $1.00. As a result 40,000 free ordinary listed options exercisable at $0.20 cents expiring 31st May 2011 were also issued.

(xiii) On 17 November 2008 the Company issued 40,320 ordinary fully paid shares in the Company following the request from an Unsecured Convertible Note Holder to convert 10,000 Notes at $1.00. As a result 20,160 free ordinary listed options exercisable at $0.20 cents expiring 31st May 2011 were also issued.

(xiiii) On the 17 December 2008 the Company issued 1,193,498 ordinary fully paid shares in the Company at an issue price of $0.30 cents to D Mji & D Anderson for their share capital in Star Medical Botswana Limited.

(xv) On 2nd January 2009 the Company announced a 1 for 8 Non Renounceable Rights Issue at an Issue price of $0.10 cents per share.

(xvi) On 3rd March 2009 the Company announced that the applications received under the Non Renounceable Rights Issue would be refunded due to the severe global financial economic situation and limited take up.

(xvii) On 10th March 2009 Messrs P. Tiede & D. Whitelaw resigned as Directors of the Company.

(xviii) On the 25 May 2009 the Company issued 19,500,000 ordinary fully paid shares in the Company, at an issue price of $0.03 cents per share to sophisticated investors of Patersons Securities Limited and RM Capital Pty Ltd for a value of $585,000 before broker expenses.

(xviiii) On the 25 May 2009 the Company announces the issue of a Prospectus for a Non-Renounceable Rights Issue Offer at an issue price of 3 cents each to raise up to $3.28 million. Patersons Securities Limited partially underwrites the issue for $1.6 million.

(xx) On the 9th June 2009 Douglas Sims retired as a Director of the Company.

(xxi) On the 11th June 2009 Michael Stewart was appointed to the Board.

(xxii) On 18th June 2009 the Company issued Secured Convertible Notes of $1.00 to the value of $750,000.

(xxiii) On the 19th June 2009 the Company issued 9,700,000 ordinary fully paid shares in the Company, at an issue price of $0.03 cents per share to sophisticated investors of Patersons Securities Limited and RM Capital Pty Ltd for a value of $291,000 before broker expenses.

(xxiiii) On the 30th June 2009 the Company advises that shareholder participation in the Non Renounceable Rights Issue resulted in $1.271 million raised and 42,372,712 fully paid ordinary shares and 4,237,201 Options exercisable at $0.10 cents expiring 30th June 2011 being issued.

### Dividends Paid or Recommended

The Directors have recommended that no dividend be paid by the company in respect of the financial year ended 30 June 2009.

### After Balance Date Events

(i) On 13th July 2009 Eastland Medical Systems Ltd confirmed completion of the Rights Issue Shortfall Capital Raising by Patterson Securities Limited. A further 43,679,850 fully paid ordinary shares at $0.03 cents per share and 4,367,985 listed options exercisable at $0.10 cents expiring 30th June 2011 to raise $1,310,396 before expenses.

(ii) On 22nd July 2009 Eastland Medical Systems Ltd settled the Group's finance facilities with the ANZ Bank amounting to $1,386,242.

(iii) On 31st July 2009 Eastland Medical Systems Ltd confirmed the balance of the Rights Issue Shortfall Capital Raising by Cunningham Securities Pty Ltd. A further 23,333,333 fully paid ordinary shares at $0.03 cents per share and 2,333,335 listed options exercisable at $0.10 cents expiring 30th June 2011 to raise $700,000 before expenses.

(iv) On 17th August 2009 $203.500 of Convertible Notes were redeemed by Eastland Medical Systems Ltd.

(v) On 28th August Eastland Medical Systems Ltd held an Extraordinary General Meeting. The following resolutions were dealt with and passed:

(1) Re-election of Mr Michael Stewart as a Company Director;

(2) Allotment and issue of 805,000 fully paid ordinary shares issued for cash at $0.14 cents per share to R M Capital;

(3) Allotment and issue of 805,000 ordinary listed options exercisable at $0.20 cents per option expiring 31st May 2011. The options were issued for cash at $0.005 cents per option to R M Capital;

(4) Allotment and issue of 112,700 ordinary listed options exercisable at $0.20 cents per option expiring 31st May 2011. The options were issued free in terms of R M Capital mandate;

(5) Allotment and issue of 500,000 ordinary listed options exercisable at $0.20 cents per option expiring 31st May 2011. The options were issued for cash at $0.05 cents per option to Barrons Court for services rendered;

(6) Allotment and issue of 447,000 ordinary listed options exercisable at $0.20 cents per option expiring 31st May 2011. The options were issued free to Monterra Pty Ltd;

(7) Allotment and issue of 1,193,498 fully paid ordinary shares issued at a value of $0.30 cents per share to Dilizi Mji and David Anderson in payment for their share capital in Star Medical (Botswana) Limited;

(8) Allotment and issue of 19,500,000 fully paid ordinary shares issued for cash at a value of $0.03 cents per share to Patersons Securities Limited and R M Capital;
(9) Allotment and issue of 9,700,000 fully paid ordinary shares issued for cash at a value of $0.03 cents per share to Patersons Securities Limited and R M Capital;
(10) Allotment and issue of 750,000 secured convertible notes at $1.00 with a conversion right of thirty three (33) fully paid ordinary shares for each $1.00 note at any time after 21st December 2009 until maturity date of 30th June 2012 to R M Capital;
(11) Allotment and issue of 17,120,384 ordinary listed options free, exercisable at $0.10 cents per option expiring 30th June 2011 to Patersons Securities Limited in terms of their underwriting agreement;

(12) Allotment and issue of 3,000,000 ordinary listed options free, exercisable at $0.10 cents per option expiring 30th June 2011 to Cunningham Securities Pty Ltd in terms of their underwriting agreement. The issues of the options to be undertaken within 30 days, but no later than 3 months after shareholder agreement; and

(13) Allotment and issue of a maximum of 1,000,000 secured convertible notes at $1.00 per note with a conversion right of thirty three (33) fully paid ordinary shares for each $1.00 note at any time after 21st December 2009 until maturity date of 30th June 2012 to R M Capital. The issue of the notes to be undertaken within 30 days, but no later than 3 months after shareholder approval.

(vi) On 1st September 2009 resignation of Company Secretary Mr Trevor Strahan and the appointment of Mr Dermot Patterson as new Company Secretary.

(vii) On 1st September 2009 resignation Chief Financial Officer Mr Peter Tiede.

(viii) On 4th September 2009 redemption of 180,000 unsecured convertible notes (EMSAI) at $1.00 per note that matured on 2nd September 2009

(viiii) On 4th September 2009 placement of 12,500,000 ordinary shares at an issue price of $0.04 cents per share, together with an attaching option with an exercise price of $0.10 cents for one share expiring 30th June 2011

### Future Developments, Prospects and Business Strategies

To further improve the consolidated Group's result and maximise shareholder wealth, the Board intends to progressively implement the following changes:

(i) Commence a program to strengthen the Company's core competencies, through the expansion of its management and advisory network to ensure that it has greater access to the skill sets necessary to both identify and exploit commercial opportunities.

(ii) Explore possible domestic and international strategic partnerships and alliances to expand and strengthen the Company's asset base.

(iii) Strengthen the Company's balance sheet by rationalising its current asset base and entering into strategic commercial alliances.

(iv) Establish rigorous internal procedures around the processes of Project identification and evaluation.

Through the above initiatives it is planned to build resources in the areas of Capital, People, Technology and Organisational Capacity.

### Environmental Issues

The consolidated group's operations are not subject to any significant environmental regulations under the law of the Commonwealth and State.

### Information on Directors

| | | |
|---|---|---|
| Mr Peter Jooste QC | — | Non Executive Chairman |
| Qualifications | — | Queens Council |
| Experience | — | Mr. Peter Jooste QC was appointed a non-executive director of Eastland Medical Systems Ltd on 3 July 2006 and to the position of Chairman on 4th December 2006. Peter Jooste brings to Eastland his widespread knowledge in all areas of Corporate Law including, Mergers, Floats and Capital Raising. Born in South Africa and educated in both South Africa and England, he is well respected in his field. His experience as a Director on Company Boards, Government Councils and Advisory Boards in both South Africa and Australia, including Past President of the Australian Southern African Business Council Inc (WA) and International Business Council provides a significant level of experience to the Board of Eastland. |
| Interest in Shares and Options | — | 2,500,000 Ordinary Shares & 50,000 Options (EMSOB) |

**Mr Dermot Patterson** — Chief Executive Officer / Executive Director / Company Secretary

Qualifications — M.B.A

Experience — Mr. Dermot Patterson was appointed as the Group's Chief Executive Officer on the 4th September 2006 and subsequently a director on 1st December 2006. Mr. Patterson has a Master of Business Administration from the University of Western Australia, a Surgical Technologist Diploma from Paddington College UK and brings to the Company 25 years extensive senior executive experience, demonstrating strong management performance with both national & international companies. He also held the position of the Group Regional Director, Australasia of UK public listed Huntleigh Technology plc, a leading global healthcare company specialising in design and manufacture of a range of non-invasive healthcare devices and instrumentation for medical applications. This experience provides an ideal background to assist Eastland to grow its range of patented safe parenteral devices and associated surgical and hospital range of products. Mr. Patterson's 20 year career with Huntleigh provided a wealth of international marketing experience in the UK, continental Europe, North & South America and the Asia Pacific region including the Australian markets.

Interest in Shares and Options — 1,000,000 Ordinary Shares & 78,000 Options (EMSOB)

**Mr Michael Stewart** — Non-Executive Director (Appointed 11th June 2009)

Qualifications — Bachelor of Applied Science (GeoPhysics)

Experience — Michael Stewart joined the Board of Eastland on 11th June 2009. He has a broad corporate and management background and has been extensively involved in bilateral donor funded and World Bank co-financed Aid Projects in under developed countries.

Interest in Shares and Options — 6,666,667 Ordinary Shares and 200,000 Convertible Notes in Eastland Medical Systems Ltd

**Mr Douglas Sims** — Non Executive Director (Retired 9th June 2009)

Experience — Mr. Doug Sims was appointed a Director of Eastland on 2nd March 2004 and has an extensive background in the field of intellectual property and patent protection.

Educated in Perth, Western Australia, his early years saw him involved in agriculture, where he continually involved himself in the improvement of farm machinery. Having sold his interests in farming, Doug moved into an entrepreneurial role in developing new products for commercialisation. The 1980's saw the development of "Bead Cheata" a system for removing tyres from oversized machinery, Bead Cheata is now manufactured and used all over the world.

Doug has gained considerable experience in the development of products from concept to commercial production and distribution. He has established factories in Australia, China, Malaysia and the USA to manufacture a wide range of products developed under his control for global distribution.

He is a founding Director of a related medical company, Eastland Technology Australia Pty Ltd.

**Mr David Whitelaw** — Non Executive Director (Retired 10th March 2009)

Experience — Mr. David Whitelaw has held the position of Executive Director with Eastland Medical Systems Ltd since September 2002 and then as a Non- Executive Director since October 2006.

David has a broad business background and over the past 20 years has acquired extensive international management experience within the pharmaceutical and healthcare industry. His career within the medical industry has focused on the hospital market segment, encompassing senior management positions in the UK, USA and Australia with roles in business development, marketing and international sales. David has held positions with major international organisations, including Procter & Gamble Ltd, The Powell & Scholefield Group and The Upjohn Company.

David spent 3 years involved in the stockbroking industry as a corporate adviser specialising in health care and biotechnology companies. He graduated with a Bachelor of Science (Hons) from Glasgow University, Scotland and is now an Australian citizen, residing in

**Mr Peter Tiede** — Executive Director (Retired 10th March 2009)

Qualifications — CPA

Experience — Mr. Peter Tiede was appointed a Director of Eastland Medical Systems Ltd on 7 May 2007. Peter Tiede joined Eastland Medical Systems Ltd in April 2004, as Group Accountant with a charter to streamline and enhance reporting and accounting systems. Majoring in Accounting and Information Systems at Curtin University and with 18 years extensive experience in mining, engineering and consulting.

Mr Trevor Strahan — Company Secretary (Retired 1st September 2009)

Qualifications — A.M.I.M.C.

Experience — Mr. Trevor Strahan's broad business background includes extensive management and marketing experience with a national finance institution over a 20 year period. As a management consultant he gained insight into the operations of a variety of manufacturing, retailing and mining operations throughout Western Australia. He has held directorships on the Boards of several public companies.

**Corporate Governance**

The Board is responsible for the corporate governance of the Company. Systems of control and accountability form the basis for the administration of corporate governance.

Corporate Governance information is published on Eastland's® website at www.eastlandmedical.com.au. This information includes charters (for the Board and its sub-committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities such as:

- a summary of the Policy for Trading in Company Securities;
- a summary of the Company's ASX continuous disclosure procedures;
- procedure for selection appointment and rotation of external auditor;
- shareholder communication strategy; and
- a summary of the risk management policy.

The Company has followed the ASX Corporate Governance Principles and Recommendations to the extent the Directors considered they genuinely improve the Company's internal processes and accountability to external stakeholders. The Board reviews its governance practices to ensure they remain appropriate to the needs of the Company. The following table sets out where Eastland® has followed the Recommendations or provided "if not, why not" reporting in connection with the 8 core Principles.

**Summary Statement**

| Recommendations | ASX P & R | If not, why not |
|---|---|---|
| Recommendation 1.1 | ☒ | |
| Recommendation 1.2 | ☒ | |
| Recommendation 2.1 | ☒ | |
| Recommendation 2.2 | ☒ | |
| Recommendation 2.3 | ☒ | |
| Recommendation 2.4 | | ☒ |
| Recommendation 2.5 | ☒ | |
| Recommendation 3.1 | ☒ | |
| Recommendation 3.2 | ☒ | |
| Recommendation 4.1 | ☒ | |
| Recommendation 4.2 | | ☒ |
| Recommendation 4.3 | ☒ | |
| Recommendation 5.1 | ☒ | |
| Recommendation 6.1 | ☒ | |
| Recommendation 7.1 | ☒ | |
| Recommendation 7.2 | ☒ | |
| Recommendation 7.3 | ☒ | |
| Recommendation 8.1 | ☒ | |
| Recommendation 8.2 | | ☒ |

**1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

**1.1 (Establishing Roles and Responsibilities)** The Board of 3 Directors tasks itself to provide strategic guidance for the Company and effective oversight for management. All matters of management are reserved to them, and delegations are express and specific as circumstances require.

Eastland Medical Systems Ltd's Chief Executive Officer is a member of the Board and is responsible for day to day operational management and implementation of strategy, risk management and control of systems.

Eastland Medical Systems Ltd has 2 independent, Non-Executive directors (Peter Jooste QC (Chairman) and Michael Stewart). The Chair ensures the Board operates efficiently, that systems and meetings are regular and timely, that appropriate focus is maintained on enhancing stakeholder value. Together with Michael Stewart the Chairman has oversight of ensuring a balance of authority, that the skill sets of the Board are deployed to maximum advantage and proper governance generally.

The Board has tasked the Company Secretary to ensure legal compliance and proper continuous disclosure are in order.

**1.2 (Evaluating the Performance of Senior Executives)** Formal written appointments govern the services of the Chief Executive Officer and Chief Financial Officer whose performances are regularly measured. A set of Key Performance Indicators applies to each of these officers, and performance evaluation against indicator attainment has been carried out by the Independent Directors in the reporting period.

**2. STRUCTURE THE BOARD TO ADD VALUE**

**2.1 (A majority of the Board should be Independent Directors)**

In determining the independence of directors the Board has regard to the independence criteria as set out in the ASX Principles and Recommendations. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website. The Company assesses independence at the time of appointment of directors and monitors the independence of directors as and when appropriate.

Applying the independence criteria, which include substantial shareholding and employment, the Board considers that Messrs Peter Jooste QC and Michael Stewart are both independent directors.

**2.2 & 2.3 (The Chair should be an Independent Director with a distinct and different role)**

Peter Jooste QC is an Independent Director, and has a distinct and different role to the Chief Executive Officer.

**2.4 (Nomination Committee)**

The Board considers the Company too small at this stage to have a Nomination Committee. The Board has put in place regular agenda items to address the relevant Board issues of required competencies, performance evaluation and succession planning. The Company Secretary monitors Board policies and procedures and is accountable through the Chair.

**2.5 (Board Performance)**

The Independent Directors are responsible for a review of the balance of authorities in the Board and for ensuring the division of functions remains appropriate. In addition a set of Key Performance Indicators applies to each of the executive Directors, and performance evaluation against indicator attainment has been carried out by the Independent Directors in the reporting period. No adverse issue emerged.

The Chief Executive Officer must report to the Board in a timely manner and ensure the reporting gives a true and fair view of the financial condition of the Company and all operational results.

One new Director was appointed during the latest reporting period. The skills, experience, relevant expertise and period of office of each Director is set out in the Directors Report in the Annual Report of the Company.

Any new director appointment is at the invitation of the Chairman after Board approval, and there is a Company induction program in place in that event.

Any Director, with the prior approval of the Chairman, may take independent professional advice at the reasonable expense of the Company.

The Board held meetings as detailed in the Directors Report in the Annual Report. Senior managers are invited to attend meetings of the Board, and Non-executive Independent Directors may meet separately from the Executive Directors in the performance of their functions.

The Company's constitution requires one third of the Directors (other than any Managing Director and alternate directors) to retire from office at each Annual General Meeting. Directors appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire by rotation at the Annual General Meeting.

Directors cannot hold office for more than 3 years following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

**3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

**3.1 (Code of Conduct)**

The Company's Code of Conduct sets the ethical tone and expected standards of behaviour and practice for Directors, Senior Management and all Employees. The Code is set out on the Company's website.

The code sets out the standard which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders and the broader community.

The Board, management and employees must not involve themselves in situations where there is a real or apparent conflict of interest betweer them as individuals and the interest of the Company. Where a real or apparent conflict of interest arises the matter should be brought to the attention of the Chairman in the case of a Director, or the Chief Executive Officer in the case of a member of management, or an employee, so that it may be considered and dealt with in an appropriate manner for all concerned.

The Board supports high standards of corporate governance, and requires its members and the staff to act with integrity and objectivity in relation to:

- Compliance with the law;
- Record keeping;
- Confidentiality; and
- Safe and equal opportunity employment.

The Board and management aim to fulfil their wider obligations to all the Company's stakeholders.

**3.2 (Trading Policy in Company Securities)**

The Company has established a Code of appropriate policies for trading in Company securities by Directors, Senior Executives and Employees. There are appropriate blackout periods, and short-term and speculative trading is prohibited. The Board endorses prompt and transparent reporting in compliance with the spirit and letter of the Law, and meticulous compliance with the prohibitions on "insider trading". The Code is set out on the Company's website. The Company Secretary monitors compliance.

**4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**4.1 (Audit Committee)**

The Board has established an Audit Committee comprising the 2 Independent Directors and the Chief Financial Officer, to focus on issues relevant to the integrity of the Company's financial reporting, and to undertake the necessary review and consideration of the financial statements, as well as appropriate steps to ensure the independence and competence of the Company's external auditor.

**4.2 (Audit Committee Structure)**

The Committee does not consist entirely of Non-Executive Directors as recommended, although the majority of the Committees are Non-Executive Independent Directors. The Company is a comparatively small company and the Board does not consider the extra costs involved in appointing an additional Non-Executive Independent Director would result in any greater benefits or efficiencies in the Audit Committee's work.

**4.3 (Audit Committee Charter)**

The Audit Committee has a formal Charter which is set out on the Company's website.
The main responsibilities of the Audit Committee are to:

- Review and report to the Board on the financial reports published by the Company or released to the market;
- Assist the Board in reviewing the effectiveness of internal controls of:
    - operations
    - financial reporting
    - legal compliance;
    - risk management;
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.
The external auditors may communicate at any time with the Chairman of the Audit Committee and the Chairman of the Board.
The external auditor has not provided any non-audit services which might compromise the auditor's independence. The Committee has met twice and has reported to the Board on its assessments regarding the external audit, and its review of risk management and internal controls. There are no unresolved issues arising from the report.

**5. MAKE TIMELY AND BALANCED DISCLOSURE**

**5.1 (Compliance with ASX Disclosure Requirements)**

The Board is primarily responsible for compliance with ASX Listing Rule requirements for continuous disclosure, and have tasked the Company Secretary to manage that compliance in close collaboration with the Chief Executive Officer.

The policy established by the Board is to ensure that all senior executives report material for immediate vetting by the Company Secretary and Chief Executive Officer in the first instance, and then final release approval by the Board.

The policy aim is to ensure all investors have equal and timely access to material information concerning the Company, particularly its financial position, performance, ownership and governance.

**6. RESPECT THE RIGHTS OF SHAREHOLDERS**

**6.1 (Promoting Effective Communication & Participation)**

The Company recognizes the importance of its relationship with shareholders and understands the importance of communication with them in accordance with the requirements of the ASX. For this purpose the Company has two policies, one for keeping shareholders up to date with Company information and one to ensure it is compliant with the continuous disclosure obligations of the ASX.

The Company maintains a website for effective communication with stakeholders. The website can be accessed on http://www.eastlandmedical.com.au. On this website shareholders can access all information provided to analysts and the media subsequent to it being released to the ASX.

The Head Office Manager is tasked to assist effective communication with shareholders, investors and customers, under the supervision of the Chief Executive Officer. A shareholder database has been established and is maintained for this purpose.

The Company Secretary is accountable to the Board to ensure prompt and timely compliant Notices of General Meetings, and that shareholders are given every assistance and encouragement to attend or be represented at meetings.

**7. RECOGNISE AND MANAGE RISK**

**7.1 (Oversight & Management of Material Business Risks)**

The Board is responsible for implementation, review and monitoring of an effective risk management system.

Day-to-day management of risk is the responsibility of the Chief Executive Officer, with the assistance of senior management. The Chief Executive Officer is responsible for reporting directly to the Board on all matters associated with risk management.

In fulfilling his duties, the Chief Executive Officer has unrestricted access to all employees, contractors and records and may, with the approval of the Board, obtain independent expert advice on any matter he believes appropriate.

**7.2 (Risk Management & Internal Control Systems)**

Specific business risks are managed through:

- the Audit Committee and Audit Committee Charter;
- insurance programs;
- regular budgeting and financial reporting;
- limits and authorities for expenditure levels;
- procedures/controls to manage environmental and occupational health and safety matters;
- procedures for compliance with continuous disclosure obligations under the ASX listing rules; and
- procedures to assist with administering corporate governance systems and disclosure requirements.

**7.3 (CEO & CFO Assurances)**
The Chief Executive Officer and Chief Financial Officer give the relevant declarations, statements and certifications to the Board in relation to the Company's Annual Report.

**8. REMUNERATE FAIRLY AND RESPONSIBLY**
**8.1 (Remuneration Committee)**
Details of Board and executive remuneration, including the Company's policy on remuneration are contained in the "Remuneration Report" which forms part of the Directors' Report.
All compensation arrangements for Directors and key management personnel are determined at Board level, in consultation with the Remuneration Committee, after taking into account the current competitive rates prevailing in the market.
Remuneration levels of the Directors and key management personnel are set by reference to similar-sized companies with similar risk profiles and are set to attract and retain executives capable of managing the consolidated entity's operations in Australia and Africa. The Board undertakes an annual review of its performance against goals set at the start of the year. No bonuses are paid to non-executive Directors, nor are there any termination or other benefits paid on retirement.

Details of the nature and amount of remuneration paid to each Director of the Company and all key management personnel of the consolidated entity are provided in the 'Remuneration Report' contained within the Directors' Report.

**8.2 (Distinct Structure for Non-executives)**
Remuneration of non-executive Directors is determined by the Board within the maximum approved by the shareholders from time to time.

Because the Company has limited cash resources at this stage of its development, non-executive directors will be included in the Company's share option plan, with prior shareholder approval.

## Company Secretary

The following person held the position of company secretary at the end of the financial year:
Mr Trevor Strahan, A.M.I.M.C. - Mr. Trevor Strahan was the Company Secretary February 2002 until his retirement on 1st September 2009.
Mr Dermot Patterson has been the Company Secretary since 2nd September 2009.

## Meetings of Directors

During the financial year, 11 meetings of directors (including committees of directors) were held.
Attendances by each director during the year were as follows:

| | Directors' Meetings | | Audit Committee | | Nominating Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Mr Peter Jooste QC | 10 | 8 | 1 | 1 | - | - | - | - |
| Mr Dermot Patterson | 10 | 10 | 1 | 1 | - | - | - | - |
| Mr Michael Stewart | - | - | - | - | - | - | - | - |
| Mr Douglas Sims | 10 | 9 | - | - | - | - | - | - |
| Mr David Whitelaw | 8 | 5 | 1 | - | - | - | - | - |
| Mr Peter Tiede | 8 | 8 | 1 | 1 | - | - | - | - |

## Indemnifying Officers or Auditor

During or since the end of the financial year, the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The premium paid for directors and officers insurance amounted to $25,237.

## Options

At the date of this report, the unissued ordinary shares of Eastland Medical Systems Ltd under option are as follows:

| Grant Date | Date of expiry | Exercise price | Number under option |
|---|---|---|---|
| | 31/05/2011 | $ 0.20 | 47,586,231 |
| | 30/04/2012 | $ 0.15 | 6,000,000 |
| | 30/06/2012 | $ 0.10 | 10,938,521 |
| | | | 64,524,752 |

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

## Proceedings on Behalf of Company

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

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

## Non-audit Services

The Board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

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

The following fees were paid or payable to Grant Thornton (WA) Pty Ltd for non-audit services provided during the year ended 30 June 2009:

| | $ |
|---|---|
| Taxation services | 14,589 |
| Due diligence investigations | - |
| | 14,589 |

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2009 has been received.

## REMUNERATION REPORT

## Remuneration policy

The remuneration policy of Eastland Medical Systems Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board of Eastland Medical Systems Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy is required to be developed by the remuneration committee and approved by the Board after seeking professiona advice from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. Key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The remuneration committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, ie put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to date of retirement. Any options not exercised before or on the date of termination lapse.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholder interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and are valued using the Black-Scholes methodology.

Key management personnel subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, i.e. put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

### Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPI's are set for the following year.

In determining whether or not a KPI has been achieved, Eastland Medical Systems Ltd bases the assessment on audited figures, however, where the KPI involves comparison of the group or a division within the group to the market, independent reports are obtained from organisations such as Standard & Poors.

### Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

The following table shows the gross revenue, profits and dividends for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenue | 8,297,578 | 6,886,405 | 9,508,161 | 11,740,233 | - |
| Net Profit | (1,928,929) | 26,079 | (2,007,363) | (9,633,525) | (3,168,182) |
| Share Price at Year-end | 0.16 | 0.16 | 0.14 | 0.17 | 0.03 |
| Dividends | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

### Performance Conditions linked to Remuneration

The performance related proportions of remuneration based on these targets are included in the table below. The objective of the reward schemes is to both reinforce the short and long-term goals of the group and to provide a common interest between management and shareholders. There has been no alteration to the terms of the bonuses paid since grant date.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

### Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group, and to the extent different, were amongst the five group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of option.

| | Position Held as at 30 June 2009 and any change during the year | Contract details (duration & termination) |
|---|---|---|
| ***Group Key Management Personnel*** | | |
| Mr Peter Jooste QC | Non Executive Chairman | Ongoing Legal Retainer - No Notice period |
| Mr Dermot Patterson | Chief Executive Officer / Company Secretary | Ongoing - Six months Notice period |
| Mr Michael Stewart | Non Executive Director | No contract |
| Mr Douglas Sims | International Business Director (Retired) | Retired |
| Mr David Whitelaw | Non Executive Director (Resigned) | Retired |
| Mr Peter Tiede | Chief Financial Officer | Retired |
| Mr Trevor Strahan | Company Secretary | Retired |
| Mr Angus Taylor | Chief Executive Officer - Medical Industries | Ongoing - Three months Notice period |
| Mr Craig Inglis | Chief Executive Officer - West Coast Surgical | Retired |

| | Proportions of elements of remuneration related to performance | | | Proportions of elements of remuneration not related to performance | |
|---|---|---|---|---|---|
| | Non-salary cash based incentives % | Shares/ Units % | Options/ Rights % | Fixed Salary/Fees % | Total % |
| ***Group Key Management Personnel*** | | | | | |
| Mr Peter Jooste QC | - | - | - | 100 | 100 |
| Mr Dermot Patterson | - | - | - | 100 | 100 |
| Mr Michael Stewart | - | - | - | 100 | 100 |
| Mr Douglas Sims | - | - | - | 100 | 100 |
| Mr David Whitelaw | - | - | - | 100 | 100 |
| Mr Peter Tiede | - | - | - | 100 | 100 |
| Mr Trevor Strahan | - | - | - | 100 | 100 |
| Mr Angus Taylor | - | - | - | 100 | 100 |
| Mr Craig Inglis | - | - | - | 100 | 100 |

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment. Terms of employment require that the relevant Group entity provide an executive contracted person with a minimum of 3 months notice to terminate contract. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least 3 months notice. Termination payments are not payable on resignation.

Note A:
Non-executive directors are not subject to similar contracts on termination.

### Changes in Directors and Executives Subsequent to Year End

On 17th July 2009 Mr Craig Inglis retired as Chief Executive Officer - Eastland Medical (WA) Pty Ltd
On 1st September 2009 Mr Trevor Strahan retired as Company Secretary of Eastland Medical Systems Ltd
On 1st September 2009 Mr Peter Tiede retired as Chief Financial Officer of Eastland Medical Systems Ltd

### Remuneration Details for the Year Ended 30 June 2009

The following table of payments and benefits details, in respect to the financial year, the components of remuneration for each member of the key management personnel for the consolidated group and, to the extent different, the five group executives and five company executives receiving the highest remuneration:-

### Table of Benefits and Payments for the year ended 30 June 2009

| | Short-term benefits | | | | Post Employment Benefits | | Long-term benefits |
|---|---|---|---|---|---|---|---|
| **2009** | Salary, Fees and Leave $ | Profit Share and bonuses $ | Non-monetary $ | Other $ | Pension and superannuation $ | Other $ | Incentive Plans $ |
| **Group Key Management Personnel** | | | | | | | |
| Mr Peter Jooste QC | 25,000 | - | - | 64,400 | - | - | - |
| Mr Dermot Patterson | 175,109 | - | 14,500 | - | 15,759 | - | - |
| Mr Michael Stewart | 1,408 | - | - | - | - | - | - |
| Mr Douglas Sims | 131,013 | - | 5,047 | - | 11,337 | - | - |
| Mr David Whitelaw | 18,750 | - | - | - | 1,687 | - | - |
| Mr Peter Tiede | 160,977 | - | 11,522 | - | 13,269 | - | - |
| Mr Trevor Strahan | 125,192 | - | - | - | 8,685 | - | - |
| Mr Angus Taylor | 145,174 | - | 8,716 | - | 13,066 | - | - |
| Mr Craig Inglis | 150,000 | - | - | - | 13,500 | - | - |
| | 932,623 | - | 39,785 | 64,400 | 77,303 | - | - |

| 2009 | Long-term benefits<br>LSL<br>$ | Equity-settled share-based payments<br>Shares/Units<br>$ | <br>Options/Rights<br>$ | Cash-settled shared based payments<br>$ | Termination benefits<br>$ | Total<br>$ | Percent related to options |
|---|---|---|---|---|---|---|---|
| **Group Key Management Personnel** | | | | | | | |
| Mr Peter Jooste QC | - | - | - | - | - | 89,400 | - |
| Mr Dermot Patterson | - | - | - | - | - | 205,368 | - |
| Mr Michael Stewart | - | - | - | - | - | 1,408 | - |
| Mr Douglas Sims | - | - | - | - | - | 147,397 | - |
| Mr David Whitelaw | - | - | - | - | - | 20,437 | - |
| Mr Peter Tiede | - | - | - | - | - | 185,768 | - |
| Mr Trevor Strahan | - | - | 100,000 | - | - | 233,877 | 42.8% |
| Mr Angus Taylor | - | - | - | - | - | 166,956 | - |
| Mr Craig Inglis | - | - | - | - | - | 163,500 | - |
| | - | - | 100,000 | - | - | 1,214,111 | |

| 2008 | Short-term benefits<br>Salary, Fees and Leave<br>$ | <br>Profit Share and bonuses<br>$ | <br>Non-monetary<br>$ | <br>Other<br>$ | Post Employment Benefits<br>Pension and superannuation<br>$ | <br>Other<br>$ | Long-term benefits<br>Incentive Plans<br>$ |
|---|---|---|---|---|---|---|---|
| **Group Key Management Personnel** | | | | | | | |
| Mr Peter Jooste QC | 25,000 | - | - | 30,000 | - | - | - |
| Mr Dermot Patterson | 175,000 | - | 14,609 | - | 15,750 | - | - |
| Mr Michael Stewart | - | - | - | - | - | - | - |
| Mr Douglas Sims | 121,000 | - | 3,897 | - | 10,890 | - | - |
| Mr David Whitelaw | 25,000 | - | - | - | 2,250 | - | - |
| Mr Peter Tiede | 143,924 | - | 13,350 | - | 14,155 | | |
| Mr Trevor Strahan | 114,500 | - | - | - | 7,206 | | |
| Mr Angus Taylor | 125,000 | - | 15,000 | - | 11,250 | - | - |
| Mr Craig Inglis | 117,500 | - | - | - | 10,575 | - | - |
| | 846,924 | - | 46,856 | 30,000 | 72,076 | - | - |

| 2008 | Long-term benefits<br>LSL<br>$ | Equity-settled share-based payments<br>Shares/Units<br>$ | <br>Options/Rights<br>$ | Cash-settled shared based payments<br>$ | Termination benefits<br>$ | Total<br>$ | Percent related to options |
|---|---|---|---|---|---|---|---|
| **Group Key Management Personnel** | | | | | | | |
| Mr Peter Jooste QC | - | - | - | - | - | 55,000 | - |
| Mr Dermot Patterson | - | - | - | - | - | 205,359 | - |
| Mr Michael Stewart | - | - | - | - | - | - | - |
| Mr Douglas Sims | - | - | - | - | - | 135,787 | - |
| Mr David Whitelaw | - | - | - | - | - | 27,250 | - |
| Mr Peter Tiede | - | - | - | - | - | 171,429 | - |
| Mr Trevor Strahan | - | - | 41,667 | - | - | 163,373 | 25.5% |
| Mr Angus Taylor | - | - | - | - | - | 151,250 | - |
| Mr Craig Inglis | - | - | - | - | - | 128,075 | - |
| | - | - | 41,667 | - | - | 1,037,523 | |

## Securities Received that are not Performance Related

No key management personnel are entitled to receive securities as part of their remuneration package, which are not performance-based.

## Cash Bonuses, Performance-Related Bonuses and Share-based Payments

The terms and conditions relating to options and bonuses granted as remuneration during the year to key management personnel and other executives during the year are as follows:

| 2009 | Remun-eration Type | Grant Date | Reason for Grant (Note 1) | Percentage vested/paid during year % | Percentage forfeited during year % | Percentage remaining as unvested % | Expiry date for vesting or payment | Range of possible values relating to future payments |
|---|---|---|---|---|---|---|---|---|
| **Group Key Management Personnel** | | | | | | | | |
| Mr Trevor Strahan | ESOP | 12/02/2008 | | 66 | - | 33 | 12/04/2011 | 300,000 |

Note 1(a) The Options have been granted subject to the completion of three years continued employment with Eastland Medical Systems Ltd. The options vest evenly at the anniversary of the grant date for 3 years. Should the performance criteria not be met for a particular year, that portion of the options that were available for vesting for that year shall be considered forfeited.

All options were issued by Eastland Medical Systems Ltd and entitle the holder to 1 ordinary share in Eastland Medical Systems Ltd for each option exercised.
There have not been any alterations of terms or conditions of any grants since grant date.

## Options and Rights Granted

| | Grant Details | | For the financial year ended 30 June 2009 | | |
|---|---|---|---|---|---|
| | Date | No. | Value $ | Exercised No. | Exercised $ |
| **Group Key Management Personnel** | | | | | |
| Mr Trevor Strahan | 12/02/2008 | 3,000,000 | 100,000 | - | - |
| | | | 100,000 | - | - |

| | For the financial year ended 30 June 2009 | | | Overall | | |
|---|---|---|---|---|---|---|
| | Lapsed No. | Lapsed $ | Vested No. | Vested % | Unvested % | Lapsed % |
| **Group Key Management Personnel** | | | | | | |
| Mr Trevor Strahan | - | - | 2,000,000 | 66.00% | 33.00% | 0.00% |
| | - | - | 2,000,000 | | | |

All options exercised resulted in the issue of ordinary shares in Eastland Medical Systems Ltd on a 1:1 basis. All persons exercising options paid the relevant exercise price in its entirety.

## Description of Options/Rights Issued as Remuneration

Details of the options granted as remuneration to those key management personnel and executives listed in the previous table are as follows:

| Grant Date | Issuer | Entitlement on exercise | Dates Exercisable | Exercise Price $ | Value per option at grant date $ | Amt Paid / Payable by recipient $ |
|---|---|---|---|---|---|---|
| 12/02/2008 | Eastland Medical Systems Ltd | option exercised | 12/04/2011 | 0.15 | 0.15 | 450,000 |

Option values at grant date were determined using the Black Scholes method.
Details relating to service and performance criteria required for vesting have been provided in the previous table.

**EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES**
**REPORT OF THE DIRECTORS'**

This Report of the Directors' is signed in accordance with a resolution of the Board of Directors.

Director ***Mr Dermot Patterson*** ***Mr Peter Jooste QC***

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**Auditor's Independence Declaration**
**To The Directors of Eastland Medical Systems Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Eastland Medical Systems Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton (WA) Partnership

GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants

P. Warr.

P W Warr
Partner
Perth, 30 September 2009

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**EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES**
**INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| Revenue | 2 | 36,978 | 299,563 | 7,124 | 36,168 |
| Other income | 2 | 132,063 | 31,734 | 183,886 | - |
| Raw materials and consumables used | | (69,010) | (271,043) | - | - |
| Employee benefits expense | | (1,060,871) | (1,387,932) | (1,022,960) | (928,699) |
| Depreciation and amortisation expense | | (78,725) | (412,464) | (72,615) | (77,867) |
| Impairment losses | | (451,747) | (6,187,669) | (717,747) | (8,336,294) |
| Other expenses | | (403,937) | (354,528) | (160,722) | (324,826) |
| Finance costs | | (103,927) | (83,210) | (64,356) | (53,151) |
| Communication Expense | | (35,920) | (38,031) | (33,383) | (31,259) |
| Travelling Expense | | (131,915) | (115,674) | (131,636) | (91,535) |
| Insurance | | (98,994) | (100,128) | (97,567) | (77,308) |
| Advertising & Public Relations | | (133,384) | (125,599) | (133,384) | (124,907) |
| Audit & Taxation Fees | | (136,700) | (139,910) | (146,700) | (139,910) |
| Professional Fees | | (44,837) | (69,905) | (10,794) | (11,739) |
| Occupancy Expense | | (70,198) | (52,772) | (63,700) | (50,884) |
| Patent Costs | | (167,831) | (253,317) | (167,831) | (253,317) |
| Legal fees | | (159,744) | (166,231) | (159,744) | - |
| Loss before income tax | 3 | (2,978,698) | (9,427,116) | (2,792,129) | (10,465,528) |
| Income tax expense | 4 | - | - | - | - |
| Loss from continuing operations | | (2,978,698) | (9,427,116) | (2,792,129) | (10,465,528) |
| Loss from discontinued operations | 5 | (189,484) | (220,438) | - | - |
| Loss for the year | | (3,168,182) | (9,647,554) | (2,792,129) | (10,465,528) |
| Loss attributable to minority equity interest | | - | (14,029) | - | - |
| Loss attributable to members of the parent entity | | (3,168,182) | (9,633,525) | (2,792,129) | (10,465,528) |
| **Overall Operations** | | | | | |
| Basic earnings per share (cents per share) | 8 | (0.02) | (0.05) | | |
| Diluted earnings per share (cents per share) | 8 | (0.02) | (0.05) | | |
| **Continuing Operations** | | | | | |
| Basic earnings per share (cents per share) | 8 | (0.02) | (0.05) | | |
| Diluted earnings per share (cents per share) | 8 | (0.02) | (0.05) | | |
| **Discontinued Operations** | | | | | |
| Basic earnings/(loss) per share (cents per share) | 8 | 0.00 | 0.00 | | |

The accompanying notes form part of these financial statements.

## EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
## BALANCE SHEETS AS AT 30 JUNE 2009

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | 9 | 2,899,329 | 486,267 | 2,491,654 | 142,649 |
| Trade and other receivables | 10 | 1,456,287 | 2,284,888 | - | 30,000 |
| Inventories | 11 | - | 2,934,601 | - | - |
| Other financial assets | 13 | 361,824 | 116,621 | 361,824 | 116,621 |
| Other assets | 18 | 1,153 | 12,072 | - | - |
| | | 4,718,593 | 5,834,449 | 2,853,478 | 289,270 |
| Non-current assets classified as held for sale | | - | 400,000 | - | - |
| Assets of disposal group classified as held for sale | 5 | 3,290,208 | - | 1,388,668 | - |
| **TOTAL CURRENT ASSETS** | | 8,008,801 | 6,234,449 | 4,242,146 | 289,270 |
| **NON-CURRENT ASSETS** | | | | | |
| Trade and other receivables | 10 | 16,480 | 9,265 | 16,481 | 2,435,956 |
| Other financial assets | 13 | 935,290 | 1,112,566 | 3,634,150 | 3,219,021 |
| Property, plant and equipment | 15 | 185,582 | 710,422 | 185,582 | 258,197 |
| Investment property | 16 | 397,612 | - | - | - |
| Intangible assets | 17 | 7,067,198 | 7,997,250 | 4,345,201 | 4,052,249 |
| **TOTAL NON-CURRENT ASSETS** | | 8,602,162 | 9,829,503 | 8,181,414 | 9,965,423 |
| **TOTAL ASSETS** | | 16,610,963 | 16,063,952 | 12,423,560 | 10,254,693 |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 19 | 3,166,701 | 1,642,319 | 1,942,712 | 294,458 |
| Borrowings | 20 | 2,468,420 | 3,233,384 | 427,693 | 433,101 |
| Short-term provisions | 21 | 199,132 | 208,511 | 68,111 | 98,655 |
| | | 5,834,253 | 5,084,214 | 2,438,516 | 826,214 |
| Non-current liabilities classified as held for sale | | - | 250,000 | - | - |
| Liabilities associated with the assets classified as held for sale | 5 | 99,067 | - | 52,363 | - |
| **TOTAL CURRENT LIABILITIES** | | 5,933,320 | 5,334,214 | 2,490,879 | 826,214 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 19 | 27,963 | - | - | - |
| Borrowings | 20 | 1,807,480 | 220,051 | 1,655,296 | - |
| **TOTAL NON-CURRENT LIABILITIES** | | 1,835,443 | 220,051 | 1,655,296 | - |
| **TOTAL LIABILITIES** | | 7,768,763 | 5,554,265 | 4,146,175 | 826,214 |
| **NET ASSETS** | | 8,842,200 | 10,509,687 | 8,277,385 | 9,428,479 |
| **EQUITY** | | | | | |
| Issued capital | 22 | 27,793,066 | 26,376,681 | 27,793,066 | 26,376,681 |
| Reserves | 31 | 442,159 | 143,320 | 413,293 | 188,644 |
| Retained earnings | | (19,393,025) | (16,224,844) | (19,928,974) | (17,136,845) |
| Parent interest | | 8,842,200 | 10,295,157 | 8,277,385 | 9,428,479 |
| Minority equity interest | | - | 214,530 | - | - |
| **TOTAL EQUITY** | | 8,842,200 | 10,509,687 | 8,277,385 | 9,428,479 |

The accompanying notes form part of these financial statements.

**EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES**
**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009**

| | Note | Share Capital | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Ordinary | Retained Earnings | Share Redemption Reserve | Foreign Currency Translation Reserve | Option Reserve | Minority Equity Interests | Total |
| **Consolidated Group** | | $ | $ | $ | $ | $ | $ | $ |
| **Balance at 1 July 2007** | | 20,818,490 | (6,591,319) | | | 100,000 | | 14,327,171 |
| Shares issued during the year | | 5,786,450 | | | | | | 5,786,450 |
| Transaction costs | | (228,259) | | | | | | (228,259) |
| Minority shareholder issue of shares | | | | | | | 228,559 | 228,559 |
| Loss attributable to members of parent entity | | | (9,633,525) | | | | | (9,633,525) |
| Loss attributable to minority shareholders | | | | | | | (14,029) | (14,029) |
| Transfers to and from reserve | | | | | | | | - |
| — foreign currency reserve | | | | | (45,324) | | | (45,324) |
| — share redemption reserve | | | | 5,310 | | | | 5,310 |
| — options reserve | | | | | | 83,334 | | 83,334 |
| Sub-total | | 26,376,681 | (16,224,844) | 5,310 | (45,324) | 183,334 | 214,530 | 10,509,687 |
| Dividends paid or provided for | | | - | | | | | - |
| **Balance at 30 June 2008** | | 26,376,681 | (16,224,844) | 5,310 | (45,324) | 183,334 | 214,530 | 10,509,687 |
| Shares issued during the year | | 1,854,856 | | | | | | 1,854,856 |
| Transaction costs | | (438,471) | | | | | | (438,471) |
| Loss attributable to members of parent entity | | | (3,168,182) | | | | | (3,168,182) |
| Transfers to and from reserve | | | | | | | | - |
| — share redemption reserve | | | | (1,337) | | | | (1,337) |
| — foreign currency reserve | | | | | 74,190 | | | 74,190 |
| — options reserve | | | | | | 225,987 | | 225,987 |
| Adjustments from translation of foreign controlled entities | | | | | | | (214,530) | (214,530) |
| Transfers from retained earnings | | | | | | | | - |
| Sub-total | | 27,793,066 | (19,393,026) | 3,973 | 28,866 | 409,321 | - | 8,842,200 |
| Dividends paid or provided for | | | - | | | | | - |
| **Balance at 30 June 2009** | | 27,793,066 | (19,393,026) | 3,973 | 28,866 | 409,321 | - | 8,842,200 |

The accompanying notes form part of these financial statements.

| | Note | Share Capital | | | | | |
|---|---|---|---|---|---|---|---|
| | | Ordinary | Retained Earnings | Asset Realisation | Foreign Currency Translation | Option Reserve | Total |
| **Parent Entity** | | $ | $ | $ | $ | $ | $ |
| **Balance at 1 July 2007** | | 20,818,490 | (6,671,318) | | | 100,000 | 14,247,172 |
| Shares issued during the year | | 5,786,450 | | | | | 5,786,450 |
| Transaction costs | | (228,259) | | | | | (228,259) |
| Loss attributable to members of parent entity | | | (10,465,528) | | | | (10,465,528) |
| Transfers to and from reserves | | | | 5,310 | | 83,334 | 88,644 |
| Sub-total | | 26,376,681 | (17,136,846) | 5,310 | - | 183,334 | 9,428,479 |
| Dividends paid or provided for | | | - | | | | - |
| **Balance at 30 June 2008** | | 26,376,681 | (17,136,846) | 5,310 | - | 183,334 | 9,428,479 |
| Shares issued during the year | | 1,854,856 | | | | | 1,854,856 |
| Transaction costs | | (438,471) | | | | | (438,471) |
| Loss attributable to members of parent entity | | | (2,792,129) | | | | (2,792,129) |
| Transfers to and from reserves | | | | | | | |
| — share redemption reserve | | | | (1,337) | | | (1,337) |
| — option reserve | | | | | | 225,987 | 225,987 |
| Sub-total | | 27,793,066 | (19,928,975) | 3,973 | - | 409,321 | 8,277,385 |
| Dividends paid or provided for | | | - | | | | - |
| **Balance at 30 June 2009** | | 27,793,066 | (19,928,975) | 3,973 | - | 409,321 | 8,277,385 |

The accompanying notes form part of these financial statements.

**EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES**
**CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | 13,211,315 | 11,072,951 | - | - |
| Interest received | | 122,092 | 146,053 | 6,995 | 36,183 |
| Payments to suppliers and employees | | (14,542,980) | (13,543,941) | (1,771,089) | (1,722,836) |
| Finance costs | | (467,937) | (376,646) | (64,457) | (53,151) |
| Net cash provided by (used in) operating activities | 26 | (1,677,510) | (2,701,583) | (1,828,551) | (1,739,804) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of property, plant and equipment | | (34,247) | (199,596) | - | (69,721) |
| Purchase of available-for-sale investments | | (1,894) | (10,568) | (1,894) | - |
| Purchase of other non-current assets | | (69,772) | (2,647,358) | (67,457) | (1,048,318) |
| Proceeds from sale of intellectual property | | 60,823 | - | - | - |
| Payment for subsidiary, net of cash acquired | 26 | (136,715) | (55,000) | (136,715) | - |
| Net cash provided by (used in) investing activities | | (181,805) | (2,912,521) | (206,066) | (1,118,039) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of shares | | 2,912,646 | 5,783,885 | 2,912,646 | 4,744,978 |
| Proceeds from borrowings | | 1,724,447 | 126,752 | 1,724,447 | 80,000 |
| Repayment of borrowings | | (211,664) | (177,864) | (27,433) | (7,620) |
| Advances to Associates | | - | (243,186) | - | (243,183) |
| Advances to Subsidiaries | | - | - | (142,164) | (1,731,120) |
| Payments for Capital Raising Costs | | (83,874) | (228,259) | (83,874) | (228,259) |
| Net cash provided by (used in) financing activities | | 4,341,555 | 5,261,328 | 4,383,622 | 2,614,796 |
| Net increase in cash held | | 2,482,240 | (352,776) | 2,349,005 | (243,047) |
| Cash at beginning of financial year | 9 | 417,089 | 769,865 | 142,651 | 385,698 |
| Cash at end of financial year | 9 | 2,899,329 | 417,089 | 2,491,656 | 142,651 |

The accompanying notes form part of these financial statements.

This financial report includes the consolidated financial statements and notes of Eastland Medical Systems Ltd and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Eastland Medical Systems Ltd as an individual parent entity ('Parent Entity').

**Note 1 Statement of Significant Accounting Policies**

**Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**(a) Principles of Consolidation**

A controlled entity is any entity over which Eastland Medical Systems Ltd has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements.

Loans to controlled entities for which repayment is not likely in the foreseeable future are accounted for as part of the Parent entity's investment in controlled entities.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

**Business Combinations**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

**(b) Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**Tax Consolidation**

Eastland Medical Systems Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.
The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2008. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

**(c) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Refer to Note 1(aa) for change in accounting policy.

**(d) Plant and Equipment**

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Leasehold improvements | 10% |
| Plant and equipment | 20% |
| Plant and equipment leased to external parties | 20% |
| Leased plant and equipment | 20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(e) Investment Property**

Investment property, comprising freehold office complexes and warehouse facilities, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at cost less accumulated depreciation.

**(f) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(g) Financial Instruments**

**Initial Recognition and Measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

**Classification and Subsequent Measurement**

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as (a) the amount at which the financial asset or financial liability is measured at initial recognition (b) less principal repayments (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

**(i) Financial assets at fair value through profit or loss**
Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

**(ii) Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

**(iii) Available-for-sale financial assets**
Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

**(iv) Financial Liabilities**
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Fair value**
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**
At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

**Derecognition**
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(h) Impairment of Non-Financial Assets**
At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(i) Investments in Associates**
Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the Group's share of post acquisition reserves of its associates.

**(j) Intangibles**

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

**Patents and trademarks**
Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised on a systematic basis matched to the future economic benefits over their useful life, when available for use.

**Research and development**
Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**(k) Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

— assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
— income and expenses are translated at average exchange rates for the period; and
— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

**(l) Employee Benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

**Equity-settled compensation**

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**(m) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(n) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**(o) Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Dividend received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

All revenue is stated net of the amount of goods and services tax (GST).

**(p) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**(q) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(r) Going Concern**

The parent and consolidated entity have reported a net loss of $2,792,129 and $3,168,182 respective and a cash outflow from operating activities of $2,093,763 and $1,937,175 respectively for the year ended 30 June 2009.
Due to the cash requirements and the under performance of various operating businesses within the Group, the Company has plans to dispose of these businesses to enable the Company to recapitalise and focus on its core project, being ArTiMist™. In addition, the Company holds investment shares and property that it may sell to generate future cash flows.
There has been significant interest in the operating businesses and we are optimistic that these sales will be concluded at satisfactory prices.
The financial statements have been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. Whilst acknowledging the above material uncertainties, the Directors are confident that the consolidated entity will be able to continue its operations into the foreseeable future.

**(s) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(t) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key Estimates**

*(a) Impairment*

The group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

The following impairment have been recognised during the period:

| | Note | Consolidated Group | Parent Entity |
|---|---|---|---|
| Impairment in Investments | (i) | - | 233,810 |
| Impairment to Receivables in Controlled and Associated Entities | (ii) | 382,687 | 483,937 |
| Impairment - Goodwill (Net) | (iii) | 69,060 | - |
| | | 451,747 | 717,747 |

(i) Impairment of $233,810 has been recognised in respect of the investment value of Portland Surgical Products Pty Ltd for the year ended 30 June 2009. Should the projected turnover figures be outside 30% of budgeted figures incorporated in the value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2009 amounting to $889,753. No impairment has been recognised in respect of development costs and trademarks and licences for the year ended 30 June 2009. (Refer Note 17)

(ii) Impairment of $382,687 in the Consolidated Group was recognised in respect of loans made to associate companies and trade receivables. Impairment of $483,937 in the Parent Entity consisted of $410,971 from controlled entities and $72,966 from associate companies.

(iii) Impairment of $69,060 related to goodwill on intellectual property which was disposed during the period in Portland Surgical Products Pty Ltd

**Key Judgements**

*(a) Provision for Impairment of Receivables*

Impairment of $382,687 has been recognised in respect of loans made to associate companies and trade receivables and $410,971 in respect of loans made to wholly owned subsidiaries (Refer Note 10). The directors believe that the remaining amount of the carrying debt is recoverable.

**(u) New Accounting Standards for application in future periods**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group is as follows:-

● AASB 3 “Business Combinations”, AASB 127 “Consolidated and Separate Financial Statements”, AASB 2008-3 “Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [ AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group is not able to be determined. Changes to accounting requirements include:-

- acquisition costs incurred in a business combination will no longer be booked to goodwill but will be expensed unless the cost relates to issuing debt or equity securities.
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition.
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value.
- there shall be no gain or loss from transactions affecting a parent’s ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group’s policy).
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income.
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee.
- where there is in substance no change to group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent’s share of net assets acquired or it will change so that goodwill recognised with also reflect that of the non-controlling interest.

● AASB 8 “Operating Segments” and AASB 2007-3 “Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038 (applicable for annual reporting periods commencing from 1 January 2009). This standard replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regulatory reviewed by the Group’s board for the purposes of decision making. Whilst the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic level at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management presently do not believe impairment will result however.

● AASB 101 “Presentation of Financial Statements”, AASB 2007-8 “Amendments to Australian Accounting Standards arising from AASB 101”, and AASB 2007-10 “Further Amendments to Australian Accounting Standards arising from AASB 101” (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

● AASB 123 “Borrowing Costs” and AASB 2007-6 “Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]” (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

● AASB 2008-1 “Amendments to Australian Accounting Standard – Share based Payments: Vesting Conditions and Cancellations [AASB 2]” (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

● AASB 2008-2 “Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2]” (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation;

● AASB 2008-5 “Amendments to Australian Accounting Standards arising from the Annual Improvements Project” (July 2008) (AASB 2008-5) and AASB 2008-6 “Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project” (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB’s annual improvements project. No changes are expected to materially affect the

● AASB 2008-8 “Amendments to Australian Accounting Standards – Eligible Hedged Items” [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.

● AASB 2008-13 “Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009) This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

● AASB Interpretation 15 “Agreements for the Construction of Real Estate” (applicable for annual reporting periods commencing from 1 January 2009). Under the interpretation, agreements for the construction of real estate shall be accounted for in accordance with AASB 111 where the agreement meets the definition of ‘construction contract’ per AASB 111 and when the significant risks and rewards of ownership of the work in progress transfer to the buyer continuously as construction progresses. Where the recognition requirements in relation to construction are satisfied but the agreement does not meet the definition of ‘construction contract’, revenue is to be accounted for in accordance with AASB 118. Management does not believe that this will represent a change of policy to the Group.

● AASB Interpretation 16 “Hedges of a Net Investment in a Foreign Operation” (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

● AASB Interpretation 17 “Distributions of Non-Assets to Owners” (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect them to have any material effect on the Group’s financial statements.

**Note 2 Revenue and Other Income**

| | **Note** | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| Sales Revenue | | | | | |
| — sale of goods | | 19,353 | 299,563 | - | - |
| Total Sales Revenue | | 19,353 | 299,563 | - | - |
| Other Revenue | | | | | |
| — interest received | 2(a) | 7,125 | - | 7,124 | 36,168 |
| — rental revenue for investment property | | 10,500 | - | - | - |
| Total Other Revenue | | 17,625 | - | 7,124 | 36,168 |
| Total Sales Revenue and Other Revenue | | 36,978 | 299,563 | 7,124 | 36,168 |
| Other Income | | | | | |
| — gain on disposal of plant and equipment | | - | 455 | - | - |
| — gains on disposal of non-current investments | | 125,000 | - | 125,000 | - |
| — other income | | 7,063 | 31,279 | 58,886 | - |
| Total Other Income | | 132,063 | 31,734 | 183,886 | - |
| (a) Interest revenue from: | | | | | |
| — other persons | | 7,125 | - | 7,124 | 36,168 |
| Total interest revenue on financial assets not at fair value through profit or loss | | 7,125 | - | 7,124 | 36,168 |

**Note 3 Loss for the Year**

| | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|
| (a) Expenses | | | | |
| Cost of sales | 69,010 | 271,043 | - | - |
| Interest expense on financial liabilities not at fair value through profit or loss: | | | | |
| — Other persons | 103,927 | 83,210 | 64,356 | 53,151 |
| Total interest expense | 103,927 | 83,210 | 64,356 | 53,151 |
| Impairment loss - Goodwill (Net) | 69,060 | 4,575,828 | - | - |
| Impairment loss - Investment | - | 400,000 | 233,810 | 1,356,409 |
| Impairment losses | 382,687 | 1,211,841 | 483,937 | 6,979,885 |
| Rental expense on operating leases | | | | |
| — minimum lease payments | 493,006 | 474,904 | 55,546 | 50,884 |
| Loss on disposal of plant and equipment | 239,177 | - | - | - |
| Write-off of obsolete stock | 238,062 | - | - | - |

**Note 4 Income Tax Expense**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Net Profit / (Loss) for the period | (3,168,182) | (9,633,525) | (2,792,129) | (10,465,528) |
| | (3,168,182) | (9,633,525) | (2,792,129) | (10,465,528) |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008: 30%) | (950,455) | (2,890,058) | (837,639) | (3,139,658) |
| Add: | | | | |
| Tax effect of: | | | | |
| — non-deductible expenses | 162,200 | 15,626 | 161,824 | 14,970 |
| — impairment loss overseas associates | - | 135,752 | - | 135,752 |
| | 162,200 | 151,378 | 161,824 | 150,722 |
| Tax effect of temporary differences and tax losses not brought to account | 788,255 | 2,738,680 | 675,815 | 2,988,936 |
| Income tax expense | - | - | - | - |
| **Australian income tax consolidated group:** | | | | |
| Unrecognised deferred tax asset losses | 3,797,145 | 3,727,138 | 3,797,145 | 3,727,138 |
| Unrecognised deferred tax asset other | 2,344,909 | 2,146,171 | 2,981,687 | 2,454,969 |
| Unrecognised deferred tax equity | - | 18,890 | - | 18,890 |
| Unrecognised deferred tax liabilities | (466,670) | (369,426) | (467,270) | (275,961) |
| **Net unrecognised deferred tax asset** | 5,675,384 | 5,522,773 | 6,311,562 | 5,925,036 |

**Note 5 Discontinued Operations**

During the reporting period, the consolidated group announced its decision to dispose of its medical devices and consumables distribution division, thereby discontinuing its operations in this business segment.
This announcement was made subsequent to directors decision and resolution.
The division has not been sold as at the reporting date, however is being actively marketed by external business brokers and by senior management.

Financial information relating to the discontinued operation to the date of disposal is set out below and at Note 25: Segment Reporting.
The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the income statement is as follows:

| | Consolidated Group | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| Revenue | 12,228,519 | 11,525,695 |
| Expenses | (12,418,003) | (11,746,133) |
| Loss before income tax | (189,484) | (220,438) |
| Income tax expense | - | - |
| Loss attributable to members of the parent entity | (189,484) | (220,438) |
| Income tax expense | - | - |
| Total loss after tax attributable to the discontinued operations | (189,484) | (220,438) |

The net cash flows of the discontinuing division which have been incorporated into the Cash Flow Statement as follows:

| | 2009 | 2008 |
|---|---|---|
| Net cash inflow/(outflow) from operating activities | 233,513 | (282,832) |
| Net cash inflow/(outflow) from investing activities | 10,983 | (184,874) |
| Net cash inflow/(outflow) from financing activities | (160,000) | 341,212 |
| Net cash increase in cash generated by the discontinuing division | 84,496 | (126,494) |

The major classes of assets and liabilities of :

**Consolidated Group**

| | 2009 |
|---|---|
| | $ |
| Assets: | |
| Inventories | 1,794,024 |
| Non current assets classified as held for sale | 1,496,185 |
| | 3,290,209 |
| Liabilities: | |
| Liabilities associated with non current assets classified as held for sale | (99,067) |
| | (99,067) |
| Net assets attributable to discontinued operations | 3,191,142 |

**Parent Entity**

| | |
|---|---|
| Assets: | |
| Loan receivable from subsidiary | 1,388,668 |
| | 1,388,668 |
| Liabilities: | |
| Loan payable to subsidiary | (52,363) |
| | (52,363) |
| Net assets attributable to discontinued operations | 1,336,305 |

The Investment Property is no longer held for sale due to the lack on any attractive interest caused by the current economic environment.

**Note 6 Interests of Key Management Personnel (KMP)**

Refer to the Remuneration Report contained in the Report of the Directors' for details of the remuneration paid or payable to each member of Key Managemen Personnel of the Group for the year ended 30 June 2009.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 1,036,808 | 923,780 |
| Post-employment benefits | 77,303 | 72,076 |
| Share-based payments | 100,000 | 41,667 |
| | 1,214,111 | 1,037,523 |

**KMP Options and Rights Holdings**

The number of options over ordinary shares in Eastland Medical Systems Ltd held during the financial year by each KMP of the Group is as follows:-

| 30 June 2009 | Balance at beginning of year | Granted as remuneration during the year | Exercised during the year | Other changes during the year | Balance at end of year | Vested during the year | Vested and exercisable | Vested and unexercisable |
|---|---|---|---|---|---|---|---|---|
| Mr Peter Jooste QC | - | - | - | 50,000 | 50,000 | - | - | - |
| Mr Dermot Patterson | - | - | - | 78,000 | 78,000 | - | - | - |
| Mr Michael Stewart | - | - | - | - | - | - | - | - |
| Mr Douglas Sims | - | - | - | - | - | - | - | - |
| Mr David Whitelaw | - | - | - | - | - | - | - | - |
| Mr Peter Tiede | - | - | - | 36,001 | 36,001 | - | - | - |
| Mr Trevor Strahan | 3,000,000 | - | - | 116,695 | 3,116,695 | 1,000,000 | 1,000,000 | 2,000,000 |
| Mr Angus Taylor | - | - | - | - | - | - | - | - |
| Mr Craig Inglis | 500,000 | - | - | (500,000) | - | - | - | - |
| | 3,500,000 | - | - | (219,304) | 3,280,696 | 1,000,000 | 1,000,000 | 2,000,000 |

| 30 June 2008 | Balance at beginning of year | Granted as remuneration during the year | Exercised during the year | Other changes during the year | Balance at end of year | Vested during the year | Vested and exercisable | Vested and unexercisable |
|---|---|---|---|---|---|---|---|---|
| Mr Peter Jooste QC | - | - | - | - | - | - | - | - |
| Mr Dermot Patterson | - | - | - | - | - | - | - | - |
| Mr Michael Stewart | - | - | - | - | - | - | - | - |
| Mr Douglas Sims | - | - | - | - | - | - | - | - |
| Mr David Whitelaw | - | - | - | - | - | - | - | - |
| Mr Peter Tiede | - | - | - | - | - | - | - | - |
| Mr Trevor Strahan | - | 3,000,000 | - | - | 3,000,000 | 1,000,000 | - | 1,000,000 |
| Mr Angus Taylor | - | - | - | - | - | - | - | - |
| Mr Craig Inglis | 500,000 | - | - | - | 500,000 | - | - | - |
| | 500,000 | 3,000,000 | - | - | 3,500,000 | 1,000,000 | - | 1,000,000 |

**KMP Shareholdings**

The number of ordinary shares in Eastland Medical Systems Ltd held during the financial year by each KMP of the Group is as follows:-

| 30 June 2009 | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year |
|---|---|---|---|---|---|
| Mr Peter Jooste QC | - | - | - | 2,500,000 | 2,500,000 |
| Mr Dermot Patterson | 220,000 | - | - | 780,000 | 1,000,000 |
| Mr Michael Stewart | - | - | - | 6,666,667 | 6,666,667 |
| Mr Douglas Sims | 26,733,127 | - | - | (136,644) | 26,596,483 |
| Mr David Whitelaw | 131,250 | - | - | - | 131,250 |
| Mr Peter Tiede | 53,575 | - | - | 360,021 | 413,596 |
| Mr Trevor Strahan | 655,310 | - | - | 853,655 | 1,508,965 |
| Mr Angus Taylor | - | - | - | - | - |
| Mr Craig Inglis | 1,752,467 | - | - | (1,538,831) | 213,636 |
| | 29,545,729 | - | - | 9,484,868 | 39,030,597 |

| 30 June 2008 | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year |
|---|---|---|---|---|---|
| Mr Peter Jooste QC | - | - | - | - | - |
| Mr Dermot Patterson | 220,000 | - | - | - | 220,000 |
| Mr Michael Stewart | - | - | - | - | - |
| Mr Douglas Sims | 26,733,127 | - | - | - | 26,733,127 |
| Mr David Whitelaw | 131,250 | - | - | - | 131,250 |
| Mr Peter Tiede | 53,575 | - | - | - | 53,575 |
| Mr Trevor Strahan | 674,905 | - | - | (19,595) | 655,310 |
| Mr Angus Taylor | - | - | - | - | - |
| Mr Craig Inglis | 4,152,780 | - | - | (2,400,313) | 1,752,467 |
| | 31,965,637 | - | - | (2,419,908) | 29,545,729 |

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 29: Related Party Transactions. For details of loans to KMP, refer to Note 10: Trade and Other Receivables.

## Note 7 Auditors' Remuneration

| | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|
| Remuneration of the auditor of the Group entity for: | | | | |
| — auditing or reviewing the financial report | 122,156 | 115,760 | 132,111 | 28,940 |
| — taxation services provided by related parties of auditor | 14,589 | 24,150 | 14,589 | 24,150 |

## Note 8 Earnings per Share

| | | Consolidated Group 2009 $ | Consolidated Group 2008 $ |
|---|---|---|---|
| (a) | Reconciliation of earnings to profit or loss | | |
| | Loss | (3,168,182) | (9,633,525) |
| | Earnings used to calculate basic EPS | (3,168,182) | (9,633,525) |
| | Earnings used in the calculation of dilutive EPS | (3,168,182) | (9,633,525) |
| | | No. | No. |
| (b) | Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 199,345,089 | 173,196,386 |

Options convertible to ordinary shares are not considered to be dilutive as their exercise will not result in diluted earnings per share.

## Note 9 Cash and Cash Equivalents

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| Cash at bank and in hand | | 2,796,701 | 388,672 | 2,491,654 | 142,649 |
| Short-term bank deposits | | 102,628 | 97,595 | - | - |
| | 30 | 2,899,329 | 486,267 | 2,491,654 | 142,649 |
| Reconciliation of cash | | | | | |
| Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows: | | | | | |
| Cash and cash equivalents | | 2,899,329 | 486,267 | 2,491,654 | 142,649 |
| Bank overdrafts | 20 | (54,404) | (69,179) | - | - |
| | | 2,844,925 | 417,088 | 2,491,654 | 142,649 |

## Note 10 Trade and Other Receivables

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| CURRENT | | | | | |
| Trade receivables | 10c | 1,513,674 | 2,534,423 | - | - |
| Provision for impairment | 10b(i) | (57,387) | (279,535) | - | - |
| | | 1,456,287 | 2,254,888 | - | - |
| Amounts receivable from: | | | | | |
| — key management personnel | 10a | - | 30,000 | - | 30,000 |
| Total current trade and other receivables | | 1,456,287 | 2,284,888 | - | 30,000 |

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| NON-CURRENT | | | | | |
| Amounts receivable from: | | | | | |
| — wholly-owned entities | | - | - | 410,972 | 9,734,019 |
| — provision for impairment - wholly-owned subsidiaries | 10b(vi) | - | - | (410,972) | (7,307,328) |
| — associated companies | | 341,780 | 947,285 | 89,446 | 947,285 |
| — provision for impairment - associated companies | 10b(vii) | (325,300) | (938,020) | (72,965) | (938,020) |
| Total non-current trade and other receivables | | 16,480 | 9,265 | 16,481 | 2,435,956 |

(a) **Key Management Personnel Loans**

| | Balance at Beginning of Year $ | Balance at End of Year $ | Interest Charged $ | Interest Not Charged $ | Provision for Impairment $ | Number of Individuals |
|---|---|---|---|---|---|---|
| Key Management Personnel | | | | | | |
| 2009 | 30,000 | - | - | - | - | 1 |
| 2008 | 30,000 | 30,000 | - | - | - | 1 |

| | Balance 01/07/2008 $ | Interest Charged $ | Interest Not Charged $ | Provision for Impairment $ | Balance 30/06/2009 $ | Highest Balance During Period $ |
|---|---|---|---|---|---|---|
| Individuals with loans above $25,000 in reporting period | | | | | | |
| Douglas Sims | 30,000 | - | - | - | - | 30,000 |

The above loan to Douglas Sims (previous Director) represented an unsecured loan to Fee-Zone Pty Ltd, a related entity, associated with Douglas Sims. The loan has been applied against other charges and expenses presented to the Company during the reporting period.

(b) **Provision For Impairment of Receivables**

Current trade and term receivables are non-interest bearing loans and generally on30 day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when their is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

| | | Opening Balance 1 July 2007 $ | Charge for the Year $ | Amounts Written Off $ | Closing Balance 30 June 2008 $ |
|---|---|---|---|---|---|
| | **Consolidated Group** | | | | |
| (i) | Current trade receivables | 49,098 | 273,821 | (43,384) | 279,535 |
| (ii) | Current term receivables | - | - | - | - |
| (iii) | Current associated companies | - | - | - | - |
| (iv) | Current other related parties | - | - | - | - |
| (v) | Non-current term receivables | - | - | - | - |
| (vii) | Non-current associated companies | 182,968 | 938,020 | (182,968) | 938,020 |
| | | 232,066 | 1,211,841 | (226,352) | 1,217,555 |
| | **Parent Entity** | | | | |
| (i) | Current trade receivables | | | | - |
| (vi) | Non-current wholly owned subsidiaries | 1,082,495 | 6,041,865 | 182,968 | 7,307,328 |
| (vii) | Non-current associated companies | 182,968 | 938,020 | (182,968) | 938,020 |
| | | 1,265,463 | 6,979,885 | - | 8,245,348 |

| | | Opening Balance 1 July 2008 $ | Charge for the Year $ | Amounts Written Off $ | Closing Balance 30 June 2009 $ |
|---|---|---|---|---|---|
| | **Consolidated Group** | | | | |
| (i) | Current trade receivables | 279,535 | 57,387 | (279,535) | 57,387 |
| (ii) | Current term receivables | - | - | - | - |
| (iii) | Current associated companies | - | - | - | - |
| (iv) | Current other related parties | - | - | - | - |
| (v) | Non-current term receivables | - | - | - | - |
| (vii) | Non-current associated companies | 938,020 | 325,300 | (938,020) | 325,300 |
| | | 1,217,555 | 382,687 | (1,217,555) | 382,687 |
| | **Parent Entity** | | | | |
| (i) | Current trade receivables | - | | | - |
| (vi) | Non-current wholly owned subsidiaries | 7,307,328 | 410,971 | (7,307,328) | 410,971 |
| (vii) | Non-current associated companies | 938,020 | 72,966 | (938,020) | 72,966 |
| | | 8,245,348 | 483,937 | (8,245,348) | 483,937 |

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

**Credit risk - Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 10. The main source of credit risk to the Group is considered to relate to the class of assets described as Trade and Other Receivables.

On a geographic basis, the Group has significant credit risk exposures to Australia and the given the substantial operations in those regions. The Group's exposure to credit risk for receivables at reporting date to those regions is as follows:-

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **AUD** | $ | $ | $ | $ |
| Australia | 1,472,767 | 2,294,153 | 16,481 | 2,465,956 |
| | 1,472,767 | 2,294,153 | 16,481 | 2,465,956 |

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

| **Consolidated Group** | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) <30 | 31-60 | 61-90 | >90 | Within initial trade terms |
|---|---|---|---|---|---|---|---|
| **2009** | $ | $ | $ | $ | $ | $ | $ |
| Trade and term receivables | 1,513,674 | 57,387 | 537,659 | 537,308 | 321,358 | 59,962 | 537,659 |
| Other receivables | 341,780 | 325,300 | | | | 16,480 | |
| Total | 1,855,454 | 382,687 | 537,659 | 537,308 | 321,358 | 76,442 | 537,659 |

| **Consolidated Group** | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) <30 | 31-60 | 61-90 | >90 | Within initial trade terms |
|---|---|---|---|---|---|---|---|
| **2008** | $ | $ | $ | $ | $ | $ | $ |
| Trade and term receivables | 2,534,423 | 279,535 | 1,374,276 | 644,898 | 161,225 | 74,489 | 1,374,276 |
| Other receivables | 977,285 | 938,020 | | | | 39,265 | |
| Total | 3,511,708 | 1,217,555 | 1,374,276 | 644,898 | 161,225 | 113,754 | 1,374,276 |

| **Parent Entity** | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) <30 | 31-60 | 61-90 | >90 | Within initial trade terms |
|---|---|---|---|---|---|---|---|
| **2009** | $ | $ | $ | $ | $ | $ | $ |
| Trade and term receivables | | | | | | | |
| Other receivables | 89,446 | 72,965 | - | - | 7,215 | 9,265 | - |
| Total | 89,446 | 72,965 | - | - | 7,215 | 9,265 | - |

| **Parent Entity** | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) <30 | 31-60 | 61-90 | >90 | Within initial trade terms |
|---|---|---|---|---|---|---|---|
| **2008** | $ | $ | $ | $ | $ | $ | $ |
| Trade and term receivables | | | | | | | |
| Other receivables | 947,285 | 938,020 | - | - | - | 9,265 | - |
| Total | 947,285 | 938,020 | - | - | - | 9,265 | - |

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

| | Note | Consolidated Group 2009 | 2008 | Parent Entity 2009 | 2008 |
|---|---|---|---|---|---|
| (c) **Financial Assets classified as loans and receivables** | **Note** | $ | $ | $ | $ |
| Trade and other Receivables | | | | | |
| — Total Current | | 1,456,287 | 2,284,888 | - | 30,000 |
| — Total Non-Current | | 16,480 | 9,265 | 16,481 | 2,435,956 |
| | | 1,472,767 | 2,294,153 | 16,481 | 2,465,956 |
| Financial Assets | 30 | 1,472,767 | 2,294,153 | 16,481 | 2,465,956 |

(d) **Collateral pledged**

A floating charge over trade receivables has been provided for certain debt. Refer to Note 20 for further details.

**Note 11 Inventories**

| | Note | Consolidated Group 2009 | 2008 | Parent Entity 2009 | 2008 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| CURRENT | | | | | |
| Raw materials and stores at cost | | - | 139,831 | - | - |
| Finished goods at cost | | - | 2,794,770 | - | - |
| | | - | 2,934,601 | - | - |

**Note 12 Associated Companies**

Interests are held in the following associated companies

| Name | Principal Activities | Country of Incorporation | Shares | Ownership Interest 2009 % | Ownership Interest 2008 % | Carrying Amount of Investment 2009 $ | Carrying Amount of Investment 2008 $ |
|---|---|---|---|---|---|---|---|
| Unlisted: | | | | | | | |
| Ampack Medical Pty Ltd | Sterile Wrap Manufacture | Australia | Ordinary | 50.00% | 50.00% | - | - |
| Health In Form | Medical Consumables | South Africa | Ordinary | 45.00% | 45.00% | - | - |
| Eastland Medical Ltd | Medical Consumables | United Kingdom | Ordinary | 41.00% | 41.00% | - | - |
| | | | | | | - | - |

(a) **Movements during the Year in Equity Accounted Investments in Associated Companies**

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| Balance at beginning of the financial year | | - | 444,574 | - | 852,506 |
| Add: New investments during the year | | - | - | - | - |
| Share of associated company's profit after income tax | | - | - | - | - |
| Share of associated company's reserve increments arising during the year | | - | - | - | - |
| Less: Dividend revenue from associated company | | - | - | - | - |
| Disposals during the year | | - | - | - | - |
| Other | | - | (444,574) | - | (852,506) |
| Balance at end of the financial year | | - | - | - | - |

**Note 13 Other Financial Assets**

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| CURRENT | | | | | |
| Available-for-sale financial assets | 13a | 361,824 | 116,621 | 361,824 | 116,621 |
| | | 361,824 | 116,621 | 361,824 | 116,621 |
| NON CURRENT | | | | | |
| Available-for-sale financial assets | 13a | 935,290 | 1,112,566 | 3,634,150 | 3,219,021 |
| | | 935,290 | 1,112,566 | 3,634,150 | 3,219,021 |

(a) **Available-for-sale financial assets comprise:**

| | Note | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|---|
| CURRENT | | | | | |
| Listed investments, at fair value | | | | | |
| — shares in listed corporations | | 361,824 | - | 361,824 | - |
| | | 361,824 | - | 361,824 | - |
| Unlisted investments, at cost | | | | | |
| — shares in controlled entities | | - | - | - | - |
| — shares in other corporations | | - | 116,621 | - | 116,621 |
| Total current available for sale financial assets | | - | 116,621 | - | 116,621 |
| Total current available-for-sale financial assets | 30 | 361,824 | 116,621 | 361,824 | 116,621 |
| NON CURRENT | | | | | |
| Listed Investments, at fair value | | | | | |
| — shares in listed corporations | | 935,290 | - | 844,257 | - |
| | | 935,290 | - | 844,257 | - |
| Unlisted investments, at cost | | | | | |
| — shares in controlled entities | | - | - | 2,114,484 | - |
| — shares in other corporations | | - | 1,112,566 | - | 3,219,021 |
| — Interest free loans to controlled entities | (a) | - | - | 675,409 | - |
| | | - | 1,112,566 | 2,789,893 | 3,219,021 |
| Total non-current available-for-sale financial assets | 30 | 935,290 | 1,112,566 | 3,634,150 | 3,219,021 |

(a) As there are no immediate plans by the Parent entity to require repayment of loans made to controlled entities until sufficient funds become available, these loans are considered to be an investment in the controlled entities.

**Note 14 Controlled Entities**

(a) **Controlled Entities Consolidated**

| | Country of Incorporation | Percentage Owned (%)* 2009 | Percentage Owned (%)* 2008 |
|---|---|---|---|
| Subsidiaries of Eastland Medical Systems Ltd: | | | |
| Portland Surgical Products Pty Ltd | Australia | 100.00 | 100.00 |
| Medical Industries Australia Pty Ltd | Australia | 100.00 | 100.00 |
| Eastland Medical (WA) Pty Ltd | Australia | 100.00 | 100.00 |
| Eastland Medical (QLD) Pty Ltd | Australia (De-registered) | 0.00 | 100.00 |
| Eastland Medical Research Pty Ltd | Australia (De-registered) | 0.00 | 100.00 |
| Star Medical (Botswana) Ltd | Botswana | 100.00 | 78.00 |
| Eastland Medical Systems S.A. Pty Ltd | South Africa | 100.00 | 100.00 |

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

During the period, the parent entity acquired the remaining interest of 22% of Star Medical (Botswana) Limited, with Eastland Medical Systems Ltd entitled to all profits/losses earned. The total consideration paid for 100% ownership of Star Medical (Botswana) Limited was $2,632,501.

The remaining interest was purchased with a consideration of 1,266,667 fully paid ordinary Eastland Medical Systems Ltd's share each valued at fair value.

The assets and liabilities arising from the acquisition are as follows:

| | Acquiree's carrying amount | Fair value |
|---|---|---|
| | $ | $ |
| Goodwill | 889,753 | 889,753 |
| Receivables | - | - |
| Inventories | - | - |
| Intellectual property | 1,832,244 | 1,832,244 |
| Payables | (89,496) | (89,496) |
| | 2,632,501 | 2,632,501 |
| Minority interests | | - |
| Net Assets Acquired | | 2,632,501 |

Losses of Star Medical (Botswana) Limited included in consolidated loss of the Group amounted to $41,616.

**Note 15 Property, Plant and Equipment**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **PLANT AND EQUIPMENT** | | | | |
| Plant and equipment: | | | | |
| At cost | 492,022 | 1,269,210 | 492,022 | 393,555 |
| Accumulated depreciation | (318,698) | (871,838) | (318,698) | (202,143) |
| Accumulated impairment losses | - | - | - | - |
| | 173,324 | 397,372 | 173,324 | 191,412 |
| Leasehold improvements | | | | |
| At cost | 13,882 | 109,248 | 13,882 | 13,882 |
| Accumulated amortisation | (1,624) | (36,629) | (1,624) | (1,624) |
| Total Leasehold Improvements | 12,258 | 72,619 | 12,258 | 12,258 |
| Leased plant and equipment | | | | |
| Capitalised leased assets | - | 435,643 | - | 91,659 |
| Accumulated depreciation | - | (195,212) | - | (37,132) |
| | - | 240,431 | - | 54,527 |
| Total plant and equipment | 185,582 | 710,422 | 185,582 | 258,197 |
| Total Property, Plant and Equipment | 185,582 | 710,422 | 185,582 | 258,197 |

(a) **Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Freehold Land | Buildings | Leasehold Improvements | Plant and Equipment | Leased Plant and Equipment | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Consolidated Group:** | | | | | | |
| Balance at 1 July 2007 | 100,000 | 541,856 | 59,015 | 509,563 | 219,694 | 1,430,128 |
| Additions | - | - | 31,408 | 120,287 | 138,305 | 290,000 |
| Disposals | - | - | - | (89,950) | - | (89,950) |
| Transfer to Non-current assets classified as held for sale | (100,000) | (300,000) | - | - | - | (400,000) |
| Depreciation expense | - | (241,856) | (17,804) | (142,528) | (117,568) | (519,756) |
| Balance at 30 June 2008 | - | - | 72,619 | 397,372 | 240,431 | 710,422 |
| Additions | - | - | - | 61,335 | - | 61,335 |
| Disposals | - | - | - | - | (54,527) | (54,527) |
| Transfers to Disposal Group | - | - | (60,361) | (209,046) | (185,904) | (455,311) |
| Depreciation expense | - | - | - | (76,337) | - | (76,337) |
| Balance at 30 June 2009 | - | - | 12,258 | 173,324 | - | 185,582 |
| **Parent Entity:** | | | | | | |
| Balance at 1 July 2007 | - | - | 13,646 | 178,622 | 74,075 | 266,343 |
| Additions | - | - | - | 52,137 | 17,584 | 69,721 |
| Depreciation expense | - | - | (1,388) | (39,347) | (37,132) | (77,867) |
| Balance at 30 June 2008 | - | - | 12,258 | 191,412 | 54,527 | 258,197 |
| Additions | - | - | - | 61,335 | - | 61,335 |
| Disposals | - | - | - | - | (54,527) | (54,527) |
| Depreciation expense | - | - | - | (79,423) | - | (79,423) |
| Balance at 30 June 2009 | - | - | 12,258 | 173,324 | - | 185,582 |

**Note 16 Investment Property**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Investment Property at cost | 397,612 | - | - | - |
| | | | | |
| Balance at beginning of year | - | - | - | - |
| Transfer from Disposal Group | 400,000 | - | - | - |
| Depreciation | (2,388) | - | - | - |
| Balance at end of year | 397,612 | - | - | - |

**Note 17 Intangible Assets**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Goodwill | | | | |
| Cost | 7,338,031 | 7,318,089 | - | - |
| Accumulated impaired losses | (6,448,278) | (4,896,796) | - | - |
| Net carrying value | 889,753 | 2,421,293 | - | - |
| | | | | |
| Trademarks and licences | | | | |
| Cost | 2,192,663 | 2,492,663 | 2,192,659 | 2,192,659 |
| Accumulated amortisation and impairment | - | - | - | - |
| Net carrying value | 2,192,663 | 2,492,663 | 2,192,659 | 2,192,659 |
| Development costs | | | | |
| Cost | 3,984,782 | 3,083,294 | 2,152,542 | 1,859,590 |
| Accumulated amortisation and impairment | - | - | - | - |
| Net carrying value | 3,984,782 | 3,083,294 | 2,152,542 | 1,859,590 |
| | | | | |
| Total intangibles | 7,067,198 | 7,997,250 | 4,345,201 | 4,052,249 |

**Consolidated Group:**

| | Goodwill | Trademarks & Licences | Development Costs |
|---|---|---|---|
| | $ | $ | $ |
| **Year ended 30 June 2008** | | | |
| Balance at the beginning of year | 6,048,338 | 2,492,663 | 3,083,294 |
| Additions | 1,116,974 | - | - |
| Disposals | - | - | - |
| Amortisation charge | (168,191) | - | - |
| Impairment losses | (4,575,828) | - | - |
| | 2,421,293 | 2,492,663 | 3,083,294 |
| **Year ended 30 June 2009** | | | |
| Balance at the beginning of year | 2,421,293 | 2,492,663 | 3,083,294 |
| Additions | 19,000 | - | 901,488 |
| Disposals | - | (300,000) | - |
| Transfer to Disposal Group | (1,192,265) | | |
| Amortisation charge | (162,000) | - | - |
| Impairment losses | (196,275) | - | - |
| Closing value at 30 June 2009 | 889,753 | 2,192,663 | 3,984,782 |

**Parent Entity:**

| | Goodwill | Trademarks & Licences | Development Costs |
|---|---|---|---|
| | $ | $ | $ |
| **Year ended 30 June 2008** | | | |
| Balance at the beginning of year | - | 2,192,659 | 1,859,590 |
| Additions | - | - | - |
| Disposals | - | - | - |
| Amortisation charge | - | - | - |
| Impairment losses | - | - | - |
| | - | 2,192,659 | 1,859,590 |
| **Year ended 30 June 2009** | | | |
| Balance at the beginning of year | - | 2,192,659 | 1,859,590 |
| Additions | - | - | 292,952 |
| Internal development | - | - | - |
| Acquisitions through business combinations | - | - | - |
| Disposals | - | - | - |
| Transfer to Disposal Group | - | - | - |
| Amortisation charge | - | - | - |
| Impairment losses | - | - | - |
| Closing value at 30 June 2009 | - | 2,192,659 | 2,152,542 |

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

**Impairment Disclosures**

Goodwill is allocated to cash-generating units which are based on the Group's reporting segments

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Manufacturing segment | - | - |
| Distribution segment | 889,753 | 2,421,293 |
| Total | 889,753 | 2,421,293 |

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the presen value of cash flow projections over a 5-year period using an estimated growth rate. The cash flows are discounted using the weighted average cost of capital at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

| | Growth Rate | Discount Rate |
|---|---|---|
| Distribution segment | 2.00% | 15.75% |

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are post-tax and are adjusted to incorporate risks associated with a particular segment.

**Note 18 Other Assets**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| CURRENT | | | | |
| Prepayments | 1,153 | 12,072 | - | - |
| | 1,153 | 12,072 | - | - |

**Note 19 Trade and Other Payables**

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| CURRENT | | | | | |
| Unsecured liabilities: | | | | | |
| Trade payables | | 1,736,683 | 1,314,127 | 644,246 | 207,710 |
| Sundry payables and accrued expenses | | 157,854 | 328,192 | 26,302 | 86,748 |
| — Proceeds from Non-Renounceable Rights Issue - June | | 1,272,164 | - | 1,272,164 | - |
| | 19(a) | 3,166,701 | 1,642,319 | 1,942,712 | 294,458 |
| NON-CURRENT | | | | | |
| Unsecured liabilities: | | | | | |
| Trade payables | 19(a) | 27,963 | - | - | - |
| | | 27,963 | - | - | - |

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| (a) Financial liabilities at amortised cost classified as trade and other payables | | | | | |
| Trade and other payables | | | | | |
| — Total Current | | 3,166,701 | 1,642,319 | 1,942,712 | 294,458 |
| — Total Non-Current | | 27,963 | - | - | - |
| Financial liabilities as trade and other payables | 30 | 3,194,664 | 1,642,319 | 1,942,712 | 294,458 |

**Note 20 Borrowings**

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| CURRENT | | | | | |
| Unsecured liabilities: | | | | | |
| Lease liability | 23 | 44,693 | 76,097 | 44,693 | 76,101 |
| Convertible Notes | 20a,d | 383,000 | 357,000 | 383,000 | 357,000 |
| | | 427,693 | 433,097 | 427,693 | 433,101 |
| Secured liabilities: | | | | | |
| Bank overdrafts | 20a,c | 54,404 | 69,179 | - | - |
| Bank loans | 20a,c | 1,986,323 | 2,731,108 | - | - |
| | | 2,040,727 | 2,800,287 | - | - |
| Total current borrowings | | 2,468,420 | 3,233,384 | 427,693 | 433,101 |

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| NON-CURRENT | | | | | |
| Unsecured liabilities: | | | | | |
| Lease liability | 23 | 4,929 | 171,291 | 4,929 | - |
| | | 4,929 | 171,291 | 4,929 | - |
| Secured liabilities: | | | | | |
| Bank loans | 20a,c | 152,184 | 48,760 | - | - |
| Convertible Notes | 20a,d | 1,650,367 | - | 1,650,367 | - |
| | | 1,802,551 | 48,760 | 1,650,367 | - |
| Total non-current borrowings | | 1,807,480 | 220,051 | 1,655,296 | - |
| Total borrowings | 30 | 4,275,900 | 3,453,435 | 2,082,989 | 433,101 |
| (a) Total current and non-current secured liabilities: | | | | | |
| Bank overdraft | | 54,404 | 69,179 | - | - |
| Bank loan | | 2,138,507 | 2,779,868 | - | - |
| Convertible Notes | | 1,650,367 | - | 1,650,367 | - |
| | | 3,843,278 | 2,849,047 | 1,650,367 | - |
| (b) The carrying amounts of non-current assets pledged as security are: | | | | | |
| Freehold land and buildings | | 397,612 | 400,000 | - | - |
| Floating charge over assets, including listed investments at market value | | 2,151,630 | 2,490,062 | - | - |
| | | 2,549,242 | 2,890,062 | - | - |

(c) **Collateral provided**

The bank debt is secured by a first registered mortgage over certain freehold properties owned by the Group. Covenants imposed by the bank require:

1. Total bank debt not to exceed 1.3:1 of total tangible assets, and borrowing costs not to exceed 3:1 of profit before income tax and finance costs.
2. Interest cover not less than 2.5:1, Debt ratio not less than 1.2:1, Bank overdraft not less than 30% of debtors less than 90 days and Minimum EBITDA $420k.

Some of the Company's credit contract are subject to covenant clauses, whereby the Company is required to meet certain key performance indicators. The company did not fulfil the debt/equity and interest cover ratios as required in the contract for the Trade Finance credit line of $2,000,000, of which the Company has currently drawn an amount of $943,065. As a result of the covenant breach the ANZ Bank withdrew all group credit facilities amounting to $1,322,636, as at the reporting date. The company agreed with the ANZ to defer settlement of the outstanding amount plus interest until current capital raising had been completed. The company settled $1,386,242 with the ANZ Bank on 22nd July 2009.

The company has also not fulfilled the minimum EBITDA amount as required by the Commercial Advance Facility of which the current balance is $845,000. This facility is not up for review until November 2009 at which time the Company will renegotiate the covenants associated with this advance with the particular funding bank.

Convertible notes are secured by fixed and floating charges over the assets of the parent entity.

Lease liabilities are secured by the underlying leased assets.

Financial assets that have been pledged as part of the total collateral for the benefit of convertible note holders and bank debt are as follows:-

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| Cash and cash equivalents | 9 | 2,899,329 | 486,267 | 2,491,654 | 142,649 |
| Trade receivables | 10 | 1,456,287 | 2,254,888 | - | - |
| Inventories | 11 | - | 2,934,601 | - | - |
| Total financial assets pledged | | 4,355,616 | 5,675,756 | 2,491,654 | 142,649 |

(d) **Convertible Notes**

The redemption profile of convertible notes on issue is as follows:-

| Maturity Dates | Interest Rates (%) | | | | |
|---|---|---|---|---|---|
| 14/08/2009 | 14% | 203,000 | 177,000 | 203,000 | 177,000 |
| 31/08/2009 | 14% | 180,000 | 180,000 | 180,000 | 180,000 |
| 30/06/2012 | 6% | 1,650,367 | - | 1,650,367 | - |
| | | 2,033,367 | 357,000 | 2,033,367 | 357,000 |

**Note 21 Provisions**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| CURRENT | 2009 | 2008 | 2009 | 2008 |
| Short-term Employee Benefits | $ | $ | $ | $ |
| Opening balance at 1 July 2008 | 208,511 | 236,139 | 98,655 | 96,430 |
| Additional provisions | 125,667 | 101,606 | 72,851 | 49,984 |
| Amounts used | (135,046) | (129,234) | (103,395) | (47,759) |
| Balance at 30 June 2009 | 199,132 | 208,511 | 68,111 | 98,655 |

**Analysis of Total Provisions**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Current | 199,132 | 208,511 | 68,111 | 98,655 |
| Non-current | - | - | - | - |
| | 199,132 | 208,511 | 68,111 | 98,655 |

**Provision for Long-term Employee Benefits**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

## Note 22 Issued Capital

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Gross Capital Proceeds | 28,231,537 | 26,376,681 | 28,231,537 | 26,376,681 |
| Capital Raising Costs | (438,471) | - | (438,471) | - |
| 228,471,789 (2008: 191,977,021) fully paid ordinary shares | 27,793,066 | 26,376,681 | 27,793,066 | 26,376,681 |

(a) **Ordinary Shares**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | No. | No. | No. | No. |
| At the beginning of reporting period | 191,977,021 | 158,885,529 | 191,977,021 | 158,885,529 |
| Shares issued 01/07/2007 to 30/06/2008 | | 33,091,492 | | 33,091,492 |
| Shares issued during year | | | | |
| — 18/07/2008 Calvin Ross under contract at $0.15 | 500,000 | - | 500,000 | - |
| — 18/07/2008 A. Tite purchase Star Medical shares at $0.30 | 13,347 | - | 13,347 | - |
| — 27/08/2008 R M Capital placement at $0.14 | 4,662,603 | - | 4,662,603 | - |
| — 21/10/2008 R M Capital placement at $0.14 | 805,000 | - | 805,000 | - |
| — 29/10/2008 Convertible Note conversion at $0.125 | 80,000 | - | 80,000 | - |
| — 17/11/2008 Convertible Note conversion at $0.125 | 40,320 | - | 40,320 | - |
| — 19/12/2008 D Anderson Agreement at $0.081 | 971,170 | - | 971,170 | - |
| — 19/12/2008 D Mji Agreement at $0.081 | 222,328 | - | 222,328 | - |
| — 31/05/2009 Paterson Securities placement at $0.03 | 19,500,000 | - | 19,500,000 | - |
| — 30/06/2009 Paterson Securities placement at $0.03 | 9,700,000 | - | 9,700,000 | - |
| At reporting date | 228,471,789 | 191,977,021 | 228,471,789 | 191,977,021 |

The Company has no authorised share capital and the fully paid ordinary shares have no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held
At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

(b) **Options**

(i) For information relating to the Eastland Medical Systems Ltd employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 27: Share-based Payments.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 27: Share-based Payments.

(c) **Capital Management**

Management control the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital, convertible notes and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements except for those listed in Note 20 (c)

Management effectively manage the Group's capital by assessing the Groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio remains between 20% and 30%. The gearing ratio's for the year ended 30 June 2009 and 30 June 2008 are as follows:

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | **Note** | $ | $ | $ | $ |
| Total borrowings | 19, 20 | 7,470,564 | 5,095,754 | 4,025,701 | 727,559 |
| Less cash and cash equivalents | 9 | (2,899,329) | (486,267) | (2,491,654) | (142,649) |
| Net debt | | 4,571,235 | 4,609,487 | 1,534,047 | 584,910 |
| Total equity | | 8,842,200 | 10,509,687 | 8,277,385 | 9,428,479 |
| Total capital | | 13,413,435 | 15,119,174 | 9,811,433 | 10,013,390 |
| Gearing ratio | | 34% | 30% | 16% | 6% |

## Note 23 Capital and Leasing Commitments

| | **Note** | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| (a) **Finance Lease Commitments** | | | | | |
| Payable — minimum lease payments | | | | | |
| — not later than 12 months | | 49,701 | 101,369 | 49,701 | 34,872 |
| — between 12 months and 5 years | | 4,929 | 173,799 | 4,929 | 53,627 |
| — greater than 5 years | | - | - | - | - |
| Minimum lease payments | | 54,630 | 275,168 | 54,630 | 88,499 |
| Less future finance charges | | (5,009) | (27,780) | (5,009) | (12,398) |
| Present value of minimum lease payments | 20 | 49,621 | 247,388 | 49,621 | 76,101 |

The finance lease on manufacturing plant and equipment and motor vehicles three year lease with an option to refinance at the end. The equipment is being leased have lease payments paid monthly in advance with a residual of 20%.

| | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|
| (b) **Operating Lease Commitments** | | | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | | | |
| Payable — minimum lease payments | | | | |
| — not later than 12 months | 410,640 | 498,649 | 47,670 | 53,428 |
| — between 12 months and 5 years | - | - | - | - |
| — greater than 5 years | - | - | - | - |
| | 410,640 | 498,649 | 47,670 | 53,428 |

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by per annum. An option exists to renew the lease at the end of the three-year term for an additional term of three years.

| | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|
| (c) **Operating Lease Revenue** | | | | |
| Operating property lease: | | | | |
| Receivable — minimum lease payments | | | | |
| — not later than 12 months | 7,700 | 10,500 | - | - |
| — between 12 months and 5 years | - | 7,700 | - | - |
| — greater than 5 years | - | - | - | - |
| | 7,700 | 18,200 | - | - |

## Note 24 Contingent Liabilities and Contingent Assets

| | Consolidated Group 2009 $ | Consolidated Group 2008 $ | Parent Entity 2009 $ | Parent Entity 2008 $ |
|---|---|---|---|---|
| **Related party guarantees provided by the parent entity** | | | | |
| The parent entity has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect to banking facilities and intercompany loans. The guarantees are for the terms of the facilities and arrangements. | - | - | 2,011,715 | 2,426,691 |

## Note 25 Segment Reporting

| | Pharmaceutical Development 2009 $ | Pharmaceutical Development 2008 $ | Discontinuing Operation (Distribution) 2009 $ | Discontinuing Operation (Distribution) 2008 $ | Eliminations 2009 $ | Eliminations 2008 $ | Consolidated Group 2009 $ | Consolidated Group 2008 $ |
|---|---|---|---|---|---|---|---|---|
| **Primary Reporting — Business Segments** | | | | | | | | |
| REVENUE | | | | | | | | |
| External Sales | - | - | - | - | - | - | - | - |
| Other segments | - | - | - | - | - | - | - | - |
| Total sales revenue | - | - | - | - | - | - | - | - |
| Unallocated revenue | | | | | | | 169,041 | 331,297 |
| Total revenue | | | | | | | 169,041 | 331,297 |
| RESULT | | | | | | | | |
| Segment result | (41,616) | (46,023) | (189,484) | (220,438) | - | - | (231,100) | (266,461) |
| Unallocated expenses net of unallocated revenue | | | | | | | (2,937,082) | (9,367,064) |
| Loss before income | | | | | | | (3,168,182) | (9,633,525) |
| Income tax expense | | | | | | | - | - |
| Loss after income tax | | | | | | | (3,168,182) | (9,633,525) |
| ASSETS | | | | | | | | |
| Segment assets | 1,863,055 | 1,640,405 | | 8,786,307 | | | 1,863,055 | 10,426,712 |
| Unallocated assets | | | | | | | 11,457,699 | 5,637,239 |
| Discontinued operations assets | | | 3,290,209 | | | | 3,290,209 | - |
| Total assets | | | | | | | 16,610,963 | 16,063,951 |

| | Pharmaceutical Development | | Discontinuing Operation (Distribution) | | Eliminations | | Consolidated Group | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| LIABILITIES | | | | | | | | |
| Segment liabilities | 717,162 | 665,266 | | 8,706,263 | | (4,643,477) | 717,162 | 4,728,052 |
| Unallocated liabilities | | | | | | | 6,952,534 | 826,213 |
| Discontinued operations liabilities | | | 99,067 | | | | 99,067 | - |
| Total liabilities | | | | | | | 7,768,763 | 5,554,265 |
| OTHER | | | | | | | | |
| Impairment Losses | 69,060 | - | 382,687 | 6,187,669 | - | - | 451,747 | 6,187,669 |
| Acquisitions of non-current segment assets | 2,317 | 1,609,607 | 42,292 | 184,604 | - | - | 44,609 | 1,794,211 |
| Depreciation and amortisation of segment assets | - | - | 324,376 | 687,756 | - | - | 324,376 | 687,756 |

**Accounting Policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

**Intersegment Transfers**

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

**Business and Geographical Segments**

**Business segments**

The consolidated group has the following two business segments:

— Pharmaceutical development division for the development of pharmaceutical products used in the medical industry.

— Distribution division provides a range of medical devices and consumables throughout Australia.

**Geographical segments**

The consolidated group’s business segments are located in Australia and Botswana. Only minor exports are made to other countries.

**Impairment Losses**

No impairment loss within the distribution segment was recognised as an expense for the year ended 30 June 2009.

**Note 26 Cash Flow Information**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| (a) **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | | | |
| Profit after income tax | (3,168,182) | (9,647,554) | (2,792,129) | (10,465,528) |
| Cash flows excluded from profit attributable to operating activities | | | | |
| Amortisation | 162,000 | 168,189 | - | - |
| Depreciation | 428,497 | 519,567 | 72,615 | 77,867 |
| Net (gain)/loss on disposal of property, plant and equipment | 239,177 | (455) | - | - |
| Net (gain)/loss on disposal of investments | (125,000) | - | (125,000) | - |
| Share options expensed | 200,000 | 83,334 | 200,000 | 83,334 |
| Impairment loss | 451,747 | 6,187,669 | 717,747 | 8,336,294 |
| Stock obsolescence | 518,185 | - | - | - |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | | | |
| (Increase)/decrease in trade and term receivables | 821,386 | (996,612) | 30,000 | - |
| (Increase)/decrease in inventories | 1,140,577 | 576,430 | - | - |
| Increase/(decrease) in trade payables and accruals | 521,574 | (67,879) | 98,760 | 126,005 |
| Increase/(decrease) in provisions | (2,867,471) | 475,728 | (30,544) | 102,224 |
| Cash flow from operations | (1,677,510) | (2,701,583) | (1,828,551) | (1,739,804) |

(b) **Acquisition of Entities**

During the year Eastland Medical Systems Ltd acquired the remaining 22%of Star Medical Botswana from the remaining minority shareholders. The net effect of the transaction has increased Eastland Medical Systems Ltd shareholding in Star Medical Botswana to 100%. The purchase consideration comprised of $1,731,999 of cash ($1,607,658 recognised in the previous years) and shares in Eastland Medical Systems Ltd (5,358,860 shares at 15 cents per share, recognised in previous years) 6,552,358 at fair value. Details of this transaction are:

| | 100% Ownership |
|---|---|
| Purchase consideration | 2,632,501 |
| Consisting of: | |
| — Cash consideration | 1,731,999 |
| — Equity issued as consideration | 900,502 |
| Total consideration | 2,632,501 |
| | |
| Cash consideration | 1,731,999 |
| Cash outflow | 1,731,999 |
| | |
| Assets and liabilities held at acquisition date: | |
| Receivables | - |
| Inventories | - |
| Intellectual property | 1,832,244 |
| Payables | (89,496) |
| | 1,742,748 |
| Goodwill on consolidation | 889,753 |
| Minority equity interests in acquisition | - |
| | 2,632,501 |

The goodwill recognised on acquisition is attributable to the synergies expected to be achieved from intergrating the companies into the consolidated entities exisiting medical products business. Information regarding the acquisitions, including profit/loss since acquisition, is disclosed at Note 14.

(c) **Non-cash Financing and Investing Activities**

(i) Share issue

1,206,845 ordinary shares were issued at average value of $0.081 cents as part of the consideration for the purchase of Star Medical (Botswana) Limited.

500,000 ordinary shares were issued at fair value of $0.15 cents as part of the consideration for services rendered by Mr. Calvin Ross in development of ArTiMist™.

120,320 convertible notes were converted at fair value of $0.125 cents on maturity.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| (d) **Credit Standby Arrangements with Banks** | | | | |
| Credit facility | 460,000 | 460,000 | - | - |
| Amount utilised | (300,000) | (318,178) | - | - |
| | 160,000 | 141,822 | - | - |

The major facilities are summarised as follows:

- Bank overdrafts:-
  - Bank overdraft facilities are arranged with a number of Australian banks with the general terms and conditions being set and agreed to annually
  - Interest rates are variable and subject to adjustment
- Commercial bill facility:-
  - $250,000 90-day variable interest rate facility provided by various Australian banks
  - $60,000 Credit Card facility, variable interest rate facility provided by various Australian banks.

(e) **Loan Facilities**

| | Consolidated Group 2009 | Consolidated Group 2008 | Parent Entity 2009 | Parent Entity 2008 |
|---|---|---|---|---|
| Loan facilities | 1,764,166 | 2,000,000 | - | - |
| Amount utilised | (1,764,166) | (1,624,423) | - | - |
| | - | 375,577 | - | - |

The major facilities are summarised as follows:

Trade Finance facility:

$2,000,000 loan facility. Termination of the agreement can be effected by notice in writing from either party. Finance will be provided under all facilties provided the Company and the economic entity have not breached any borrowing requirements and the required financial ratios are met. Refer note 20(c) for further details. On 22nd July 2009 Eastland Medical Systems Ltd settled this facility in the amount of $1,386,242.

**Note 27 Share-based Payments**

(i) On 24/04/2008, 6,000,000 share options were granted to employees under the Eastland Medical Systems Ltd employee option plan to take up ordinary shares at an exercise price of $0.15 cents each. The options are exercisable by the employees split evenly over 3 years, and cannot be exercised on or before the grant date anniversary. The options hold no voting rights or dividend rights and are not transferable. At the balance date 2,000,000 options were eligible to be exercised.

All options granted to key management personnel are ordinary shares in Eastland Medical Systems Ltd which confer a right of one ordinary share for every option held.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| **Outstanding as at 30 June 2007** | | | | |
| Granted | 6,000,000 | $0.15 | 6,000,000 | $0.15 |
| Forfeited | - | | - | |
| Exercised | - | | - | |
| Expired | - | | - | |
| **Outstanding as at 30 June 2008** | 6,000,000 | | 6,000,000 | |
| Granted | - | | - | |
| Forfeited | - | | - | |
| Exercised | - | | - | |
| Expired | - | | - | |
| **Outstanding as at 30 June 2009** | 6,000,000 | | 6,000,000 | |
| Options exercisable as at 30 June 2009: | 2,000,000 | | - | |
| Options exercisable as at 30 June 2008: | - | | - | |

The weighted average remaining contractual life of options outstanding at year end was 2 years.

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

The weighted average fair value of options vested during the year was $200,000 (2008: $83,334). These values were calculated using the Black Scholes option pricing model applying the following inputs:

| | |
|---|---|
| Weighted average exercise price: | $0.15 |
| Weighted average life of the option: | 3 years |
| Underlying share price: | $0.165 |
| Expected share price volatility: | 100% |
| Risk free interest rate: | 6.45% |

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is $200,000 which relates to the vested value of the equity settled share based payment transactions (2008: $83,334)

**Note 28 Events After the Balance Sheet Date**

On 13th July 2009 Eastland Medical Systems Ltd confirmed completion of the Rights Issue Shortfall Capital Raising by Paterson Securities Limited. A further 43,679,850 fully paid ordinary shares at $0.03 cents per share and 4,367,985 listed options exercisable at $0.10 cents expiring 30th June 2011 to raise $1,310,396 before expenses.

On 22nd July 2009 Eastland Medical Systems Ltd settled the Groups finance facilities with the ANZ Bank amounting to $1,386,242.

On 31st July 2009 Eastland Medical Systems Ltd confirmed the balance of the Rights Issue Shortfall Capital Raising by Cunningham Securities Pty Ltd. A further 23,333,333 fully paid ordinary shares at $0.03 cents per share and 2,333,335 listed options exercisable at $0.10 cents expiring 30th June 2011 to raise $700,000 before expenses.

On 17th August 2009 $203,500 of Convertible Notes were redeemed by Eastland Medical Systems Ltd.

On 4th September 2009 Eastland Medical Systems Ltd confirmed the placement of 12,500,000 fully paid ordinary shares at $0.04 per share together with 12,500,000 attaching options with an exercise price of $0.10 expiring on 30th June 2011. The placement raised $500,000 before expenses.

On 30th September 2009 the Board authorised the issue of these financial statements.

**Note 29 Related Party Transactions**

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. | | | | |
| Transactions with related parties: | | | | |
| (a) **Other Related Parties** | | | | |
| Purchase of surgical instruments from Australian Medical Supplies Pty Ltd of which Mr Craig Inglis has a controlling interest were transacted during the year. | 297,003 | 66,434 | - | - |
| Rent paid on 56 Catalano Circuit Canningvale by Eastland Medical (WA) Pty Ltd to Granworld Pty Ltd, a company of which Craig Inglis has a controlling interest. | 108,150 | 106,098 | - | - |
| Loan from Mr Douglas Sims Super Fund to Eastland Medical Systems Ltd | 76,819 | - | 76,819 | - |
| Purchase of 9,617,975 ordinary Star Medical (Botswana) Limited shares from David Anderson, a minority shareholder of the Company, for 977,170 of Eastland Medical Systems Ltd ordinary shares at fair value of $0.081 cents per share. | 79,150 | - | 79,150 | - |
| Services rendered by David Anderson to Eastland Medical Systems SA. | 86,000 | - | 86,000 | - |

(b) **Key Management Personnel**

| | | | | |
|---|---|---|---|---|
| Mr Trevor Strahan - Convertible Note (maturing 14/08/2009) | 50,000 | 50,000 | 50,000 | 50,000 |
| Mr Peter Jooste - Legal Retainer | 30,000 | 30,000 | 30,000 | 30,000 |
| Mr Peter Jooste - additional legal services rendered above legal retainer | 28,545 | - | 28,545 | - |

## Note 30 Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, leases and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:-

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| **Financial Assets** | | $ | $ | $ | $ |
| Cash and cash equivalents | 9 | 2,899,329 | 486,267 | 2,491,654 | 142,649 |
| Loans and receivables | 10f | 1,472,767 | 2,294,153 | 16,481 | 2,465,956 |
| Available-for-sale financial assets | | | | | |
| — Equity investments | 13a | 1,297,114 | 1,229,187 | 3,995,974 | 3,335,642 |
| | | 5,669,210 | 4,009,607 | 6,504,109 | 5,944,247 |
| **Financial Liabilities** | | | | | |
| Financial liabilities at amortised cost | | | | | |
| — Trade and other payables | 19 | 3,194,664 | 1,642,319 | 1,942,712 | 294,458 |
| — Borrowings | 20 | 4,275,900 | 3,453,435 | 2,082,989 | 433,101 |
| | | 7,470,564 | 5,095,754 | 4,025,701 | 727,559 |

**Financial Risk Management Policies**

The Risk and Audit Committee (RAC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The RAC has, in turn, established a dedicated Financial Risk Management Committee (FRMC) to undertake such responsibility. The FRMC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk. The FRMC meets on a bi-monthly basis and minutes of the FRMC are reviewed by the Board.
The FRMC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

**Specific Financial Risk Exposures and Management**

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and commodity and equity price risk.

**a. Interest rate risk**

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed using a mix of fixed and floating rate debt.

At balance date, the details of outstanding contracts, all of which are to pay-fixed interest rates, are as follows:

| | Effective Average Interest Rate Payable | | Notional Principle | |
|---|---|---|---|---|
| | Consolidated Group | | | |
| | 2009 | 2008 | 2009 | 2008 |
| **Maturity of notional amounts** | % | % | $ | $ |
| Less than 1 year | 8.55% | 9.97% | 452,760 | 458,165 |
| 1 to 2 years | 8.75% | 9.17% | 104,291 | 296,666 |
| 2 to 5 years | 6.00% | 0.00% | 1,650,000 | - |
| | | | 2,207,051 | 754,831 |

| | Effective Average Interest Rate Payable | | Notional Principle | |
|---|---|---|---|---|
| | Parent Entity | | | |
| | 2009 | 2008 | 2009 | 2008 |
| **Maturity of notional amounts** | % | % | $ | $ |
| Less than 1 year | 12.00% | 12.00% | 427,692 | 383,478 |
| 1 to 2 years | 8.75% | 8.75% | - | 49,622 |
| 2 to 5 years | 6.00% | 0.00% | 1,654,929 | - |
| | | | 2,082,621 | 433,100 |

The net effective variable interest rate borrowings (ie. unhedged debt) exposes the Group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities:-

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| **Floating rate instruments** | | $ | $ | $ | $ |
| Bank overdrafts and Trade Lines | 20 | 2,267,636 | 2,698,604 | - | - |
| | | 2,267,636 | 2,698,604 | - | - |

**b. Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:-

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- using derivatives that are only traded in highly liquid markets
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- only investing surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore defer from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will rolled forward.

**Financial liability maturity analysis**

| | Within 1 Year | | 1 to 5 years | | Over 5 years | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| **Consolidated Group** | $ | $ | $ | $ | $ | $ | $ | $ |
| **Financial liabilities due for payment** | | | | | | | | |
| Bank overdrafts and loans | 2,267,636 | 2,698,604 | - | - | - | - | 2,267,636 | 2,698,604 |
| Convertible Notes | 383,000 | 357,000 | 1,650,000 | - | - | - | 2,033,000 | 357,000 |
| Trade and other payables (excl. est. annual leave) | 1,746,799 | 1,642,319 | - | - | - | - | 1,746,799 | 1,642,319 |
| Other third party loans | 25,068 | 25,068 | 99,362 | 125,375 | - | - | 124,430 | 150,443 |
| Financial lease | 44,692 | 76,097 | 4,929 | 171,291 | - | - | 49,621 | 247,388 |
| Total contractual outflows | 4,467,195 | 4,799,088 | 1,754,291 | 296,666 | - | - | 6,221,486 | 5,095,754 |
| Less bank overdrafts | (154,404) | (150,000) | | | | | (154,404) | (150,000) |
| **Total expected outflows** | 4,312,791 | 4,649,088 | 1,754,291 | 296,666 | - | - | 6,067,082 | 4,945,754 |

| | Within 1 Year | | 1 to 5 years | | Over 5 years | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| **Consolidated Group** | $ | $ | $ | $ | $ | $ | $ | $ |
| **Financial Assets - cash flows realisable** | | | | | | | | |
| Cash and cash equivalents | 2,896,257 | 388,672 | - | 97,595 | - | - | 2,896,257 | 486,267 |
| Trade, term and loans receivables | 1,487,818 | 2,294,153 | - | - | - | - | 1,487,818 | 2,294,153 |
| Other investments | 1,297,114 | 1,229,187 | - | - | - | - | 1,297,114 | 1,229,187 |
| **Total anticipated inflows** | 5,681,189 | 3,912,012 | - | 97,595 | - | - | 5,681,189 | 4,009,607 |
| **Net (outflow) / inflow on financial instruments** | 1,368,398 | (737,076) | (1,754,291) | (199,071) | - | - | (385,893) | (936,147) |

**Financial liability maturity analysis**

| | Within 1 Year | | 1 to 5 years | | Over 5 years | | Total contractual cash flow | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| **Parent Entity** | $ | $ | $ | $ | $ | $ | $ | $ |
| **Financial liabilities due for payment** | | | | | | | | |
| Bank overdrafts and loans | - | - | - | - | - | - | - | - |
| Convertible Notes | 383,000 | 357,000 | 1,650,000 | - | - | - | 2,033,000 | 357,000 |
| Lease Liabilities | 44,692 | 26,478 | 4,929 | 49,622 | - | - | 49,621 | 76,100 |
| Trade and other payables (excl. est. annual leave) | 544,210 | 294,458 | - | - | - | - | 544,210 | 294,458 |
| Total contractual outflows | 971,902 | 677,936 | 1,654,929 | 49,622 | - | - | 2,626,831 | 727,558 |
| Less bank overdrafts | | | | | | | - | - |
| **Total expected** | 971,902 | 677,936 | 1,654,929 | 49,622 | - | - | 2,626,831 | 727,558 |

| | Within 1 Year | | 1 to 5 years | | Over 5 years | | Total contractual cash flow | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| **Parent Entity** | $ | $ | $ | $ | $ | $ | $ | $ |
| **Financial Assets - cash flows realisable** | | | | | | | | |
| Cash and cash equivalents | 2,491,654 | 142,649 | - | - | - | - | 2,491,654 | 142,649 |
| Trade, term and loans receivables | 2,028,195 | 2,465,956 | - | - | - | - | 2,028,195 | 2,465,956 |
| Other investments | 3,320,565 | 3,335,643 | - | - | - | - | 3,320,565 | 3,335,643 |
| **Total anticipated inflows** | 7,840,414 | 5,944,248 | - | - | - | - | 7,840,414 | 5,944,248 |
| **Net (outflow) / inflow on financial instruments** | 6,868,512 | 5,266,312 | (1,654,929) | (49,622) | - | - | 5,213,583 | 5,216,690 |

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 20 for further details.

**c. Foreign exchange risk**

*Forward exchange contracts*

The Group has open forward exchange contracts at balance date relating to highly probable forecast transactions and recognised financial assets and financial liabilities. These contracts commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. The FRMC has a policy of requiring that forward exchange contracts be entered into where future commitments are entered into requiring settlement at a time in excess of 2 months. Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimized.

The following table summarises the notional amounts of the Group's commitments in relation to forward exchange contracts. The notional amounts do not represent amounts exchanged by the transaction counterparties and are therefore not a measure of the exposure of the Group through the use of these contracts. The Parent entity does not have any contracts in place.

| | | Notional Amounts | | Average Exchange Rate | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| **Consolidated Group** | | $ | $ | $ | $ |
| *Buy USD / Sell AUD* | | | | | |
| Settlement | - less than 6 mths | 264,749 | 1,074,076 | 0.75 | 0.90 |
| | - 6 mths to 1 year | | | | |
| *Buy AUD / Sell USD* | | | | | |
| Settlement | - less than 6 mths | 919,166 | 550,347 | 0.75 | 0.90 |
| | - 6 mths to 1 year | | | | |

Forward exchange contracts are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as they are included in the costs of hedged inventory purchases or other asset acquisitions.

**d. Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and includes the utilization of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 30days from the date of invoice.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the FRMC has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, then risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

*Credit Risk Exposures*

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the balance sheet. Credit risk also arises through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities of certain subsidiaries.

Collateral held by the Group securing receivables are detailed in Note 10 Trade and Other Receivables.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographic basis, the Group has significant credit risk exposures in Australia given the substantial operations in this region. Details with respect to credit risk of Trade and Othe Receivables is provided in Note 10.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 10.

Credit risk related to balances with banks and other financial institutions is managed by the FRMC in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on S&P counterparty credit ratings.

| | Note | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| Cash and cash equivalents | | | | | |
| - AA Rated | | 2,896,257 | 486,267 | 2,491,654 | 142,649 |
| - A Rated | | - | - | - | - |
| | 9 | 2,896,257 | 486,267 | 2,491,654 | 142,649 |

For details of collateral held as security, refer to Note 10(e).

**e. Price risk**

The group is not exposed to any price risk.

*Sensitivity Analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **Profit** | **Equity** | **Profit** | **Equity** |
| **Year ended 30 June 2009** | **$** | **$** | **$** | **$** |
| +/- 2% in interest rates | (84,907) | 84,907 | (41,554) | 41,554 |
| +/- 5% in $A/$US | (75,562) | 83,516 | - | - |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **Profit** | **Equity** | **Profit** | **Equity** |
| **Year ended 30 June 2008** | **$** | **$** | **$** | **$** |
| +/- 2% in interest rates | (70,729) | 70,729 | (8,322) | 8,322 |
| +/- 5% in $A/$US | (85,948) | 94,995 | - | - |

**Note 31 Reserves**

a. *Share Redemption Reserve*
The share redemption reserve records the value of un-marketable share parcels for redemption.

b. *Foreign Currency Translation Reserve*
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled entity.
The general reserve records funds set aside for future expansion of the entity.

c. *Option Reserve*
The option reserve records items recognised as expenses on valuation of employee share options.

**Note 32 Economic Dependency**

A significant portion of the development and manufacture of parenteral devices and pharmaceutical products is obtained under intellectual property and patents owned by the ultimate parent entity, Eastland Medical Systems Ltd.

**Note 33 Company Details**

The registered office of the Company is:
Eastland Medical Systems Ltd
54 Lindsay Street
Perth Western Australia 6000

**EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250**
**AND CONTROLLED ENTITIES**
**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages **20 and 48** are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards; and
   (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;

2. the Chairman and Chief Executive Officer have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view;

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The company and the wholly-owned subsidiaries, Medical Industries Australia Pty Ltd, Eastland Medical (WA) Pty Ltd t/as Westcoast Surgical and Medical Supplies and Portland Surgical Products Pty Ltd, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

This declaration is made in accordance with a resolution of the Board of Directors.

Director ______________________________
*Mr Dermot Patterson*

Chairman ______________________________
*Mr Peter Jooste QC*

Dated this 30th day of September 2009

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**Independent Auditor's Report**
**To the Members of Eastland Medical Systems Limited**

**Report on the Financial Report**

We have audited the accompanying financial report of Eastland Medical Systems Limited, (the company) which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' responsibility for the financial report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

**Auditor's responsibility**

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

Grant Thornton (WA) Partnership ABN 17 735 344 518, a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127 556 389.

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

**Independence**

In conducting our audit, we complied with applicable independence requirements of the Corporations Act 2001.

**Basis for Qualified Auditor's Opinion**

*A limitation in scope of our work exists for the reasons described below:*

As disclosed in Note 17 to the financial statements, the company and consolidated entity have, included in the non current assets, intangible assets representing trademarks and licences and development costs reported at 30 June 2009 at $2,192,659 and $2,152,542 respectively (the assets). This relates to intellectual property of needle technology. As set out in Note 17, the recoverability of the carrying values of the assets is dependent on the ability of the company and consolidated entity to achieve certain matters. Australian Accounting Standard AASB 136 *Impairment of Assets* requires an asset to be carried at no more than its recoverable amount. We have been unable to obtain sufficient appropriate audit evidence to support the director assessment of the recoverable amount of the assets and, accordingly, we have been unable to determine whether the recoverable amounts of the assets are at least equal to their carrying values. In the event that the carrying value of the assets exceeds their recoverable amount, it would be necessary for the carrying value of the assets to be written down to their recoverable amount.

**Qualified Auditor's opinion**

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in relation to the abovementioned matters:

a the financial report of Eastland Medical Systems Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

  ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Significant uncertainty regarding continuation as a going concern**

Without further qualification to the audit opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(r) in the financial report which indicates that the company and consolidated entity incurred a net loss of $2,792,129 and $3,168,182 respectively during the year ended 30 June 2009, and negative operating cash flows of $2,093,763 and $1,937,175 respectively.

These conditions, along with other matters as set forth in Note 1(d), indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as a going concern and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 17 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion**

In our opinion the Remuneration Report of Eastland Medical Systems Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

Grant Thornton (WA) Partnership

GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants

P. Warr.

P W WARR
Partner

PERTH, 30 September 2009

**EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES**
**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

The following additional information is required by the Australian Securities Exchange Ltd in respect of listed public companies only.

**1. Shareholding**

**a. Distribution of Shareholders**

| | Number | |
|---|---|---|
| Category (size of holding) | **Ordinary** | **Shareholders** |
| 1 – 1,000 | 14,399 | 22 |
| 1,001 – 5,000 | 677,334 | 186 |
| 5,001 – 10,000 | 2,589,965 | 298 |
| 10,001 – 100,000 | 39,229,387 | 947 |
| 100,001 – and over | 272,013,266 | 437 |
| | 314,524,351 | 1,890 |

**b. The number of shareholdings held in less than marketable parcels is less than 306**

**c. The names of the substantial shareholders listed in the holding company's register as at 30th September 2009 are:**

| | Number | |
|---|---|---|
| Shareholder | **Ordinary** | **Preference** |
| Fee-Zone Pty Ltd | 17,169,010 | - |
| RBC Dexia Investor Services | 13,791,691 | - |
| ANZ Nominees | 12,545,609 | - |

**d. Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary shareholder entitled to vote may vote in person, or by proxy, or by representative or attorney;
– On a show of hands, each shareholder present in person, or by proxy, or by representative or attorney has one vote; and
– On a poll, each shareholder present in person, or by proxy, or by representative or by attorney has one vote for every share held by that shareholder. In the case of joint holdings, only one joint holder may vote and, if joint holders attend meeting, only the first named in the register of shareholders may vote.

Redeemable and converting preference shares

– These shares have no voting rights.

**e. 20 Largest Shareholders — Ordinary Shares**

| **Name** | **Number of Ordinary Fully Paid Shares Held** | **% Held of Issued Ordinary Capital** |
|---|---|---|
| 1. Fee-Zone Pty Ltd | 17,169,010 | 5.08% |
| 2. RBC Dexia Investor Services | 13,791,691 | 4.08% |
| 3. ANZ Nominees | 12,545,609 | 3.71% |
| 4. O'Sullivan Super Fund | 8,605,000 | 2.55% |
| 5. Kamala Holdings Pty Ltd <Kamala 1994 Super Fund> | 6,666,667 | 1.97% |
| 6. Phillip J Coulson | 6,666,667 | 1.97% |
| 7. National Nominees Limited | 6,033,999 | 1.79% |
| 8. Bead-Cheata Nominees D Sims Super Fund | 5,081,872 | 1.50% |
| 9. Eastland Technology | 4,065,005 | 1.20% |
| 10. Dwellers Nominees Pty Ltd | 4,000,000 | 1.18% |
| 11. Saphire Trading Ltd | 3,912,597 | 1.16% |
| 12. Dougal Retirement Fund | 3,870,885 | 1.15% |
| 13. Onicas Investments Pty Ltd | 3,850,000 | 1.14% |
| 14. Banlan Pty Ltd | 3,250,000 | 0.96% |
| 15. Palos Pty Ltd | 3,000,000 | 0.89% |
| 16. Grant Ross Tanner | 2,519,510 | 0.75% |
| 17. Zulu (WA) Pty Ltd | 2,500,000 | 0.74% |
| 18. Botsis Holdings Pty Ltd | 2,250,000 | 0.67% |
| 19. Isaac Kwame Amuah | 2,012,679 | 0.60% |
| 20. Grammond <Two of Us Retirement> | 2,000,000 | 0.59% |
| | 113,791,191 | 33.68% |

**2.** The name of the Company Secretary is Mr Dermot Patterson

**3.** The address of the principal registered office in Australia is 54 Lindsay Street, Perth WA 6000. Telephone (08) 9436-9500.

**4.** Registers of securities are held at the following addresses

Western Australia — Advanced Share Registry Ltd - 150 Stirling Highway Nedlands WA 6009

**5. Australian Securities Exchange Listing**

Quotation has been granted for all the ordinary shares and certain classes of options of the company on all Member Exchanges of the Australian Securities Exchange Limited. The stock codes under which the shares and options trade are:

Ordinary Shares: **EMS** Ordinary Options: **EMSO / EMSOB**

**6. Options over Unissued Shares**

A total of 57,832,437 options are on issue. 51,832,437 options are on issue to holders of ordinary securities. 6,000,000 options are on issue to and 2 employees under the Eastland Medical Systems Ltd employee option plan.

**7. Annual General Meeting**

The Annual General Meeting of the Company will be held at 10:00 am (WST) on 19th November 2009 at the premises of the Melbourne Hotel, 942 Hay Street, Perth, Western Australia 6000