

Appendix 4E

Preliminary Final Report

1. Name of entity

EASTLAND MEDICAL SYSTEMS LTD

ABN

35 090 987 250

Financial year ended ('current period')

30 June 2010

2. Results for announcement to the market.

2.1	Revenues from ordinary activities.*	increased	22 %	to	\$A'000 \$45
2.2	(Loss) from ordinary activities after tax attributable to members.	increased	24 %	to	(\$3,693)
2.3	Net (loss) for the period attributable to members.	increased	53%	to	(\$4,856)
	Net Tangible Assets per security- at the end of the current period.				\$0.00 cents
	Net Tangible Assets per security- at the end of the previous period.				\$0.01 cents
2.4	Dividends.		Amount per security		Franked amount per security
	Final dividend		Nil ¢		Nil ¢
	Interim dividend		Nil ¢		Nil ¢
2.5	Record date for determining entitlements to the dividend.		N/A		
2.6	Brief explanation of any of the figures reported above (2.1 – 2.4):				
	The Revenues of the Consolidated Group in 2.1 of \$44,937 only relate to the parent entity for the current financial year. (June 2009: \$36,978)				
	* Revenues from Group Subsidiaries have been excluded as they have been defined and classified as "Discontinued Operations" under the current Accounting Standards. Due to the sale of the business of its wholly owned subsidiary, Medical Industries Australia Pty Ltd in January 2010, revenues have decreased to \$6,995,407 (June 2009: \$12,228,519). The Group Consolidated loss for this financial year of \$4,856,312 has shown an increase of \$1,688,130. This decrease was attributable to large impairment losses recognised in the current year and legal action involving a previous director.				

This report is based on ⁺accounts to which one of the following applies.

- The ⁺accounts have been audited.
 The ⁺accounts have been subject to review.
- The ⁺accounts are in the process of being audited or subject to review.
 The ⁺accounts have *not* yet been audited or reviewed.

**EASTLAND MEDICAL SYSTEMS LTD
AND CONTROLLED ENTITIES**

ABN: 35 090 987 250

Preliminary Final Report For The Year Ended

30 June 2010

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EASTLAND MEDICAL SYSTEMS LTD ABN 35 090 987 250 AND CONTROLLED ENTITIES
PRELIMINARY FINAL REPORT – APPENDIX 4E

Operating results

The consolidated loss of the consolidated group after providing for income tax amounted to \$4,856,312. This represents a 53% increase on the loss reported for the year ended 30 June 2009. The significant increase in costs was largely attributable to impairment losses recognised in the year of \$1,535,383. Further discussion of the Group's operations now follows.

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) 13th July 2009: Eastland Medical Systems Ltd confirmed completion of the Rights Issue Shortfall Capital Raising by Patersons 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 30 June 2011 to raise \$1,310,396 before expenses.

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

(iii) 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) 3rd September 2009 the Company issued 20,124,384 Options exercisable at \$0.10 cents expiring 30th June 2011. These Options were Broker Options issued free in terms of Underwriting Agreements approved by shareholders at EGM on 28th August 2009. This transaction represented a share-based payment to brokers. The accounting for this transaction affects equity balances only and therefore has no impact on the results for the year.

(v) 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 to raise \$500,000 before expenses.

(vi) 17th September 2009 the Company increased its stake in the African drug development company, Star Medical (Botswana) Limited to 100% by acquiring the interests of another shareholder.

(vii) 15th October 2009 the Company issued 4,000,000 fully paid ordinary shares at \$0.03 cents per share and 7,000,000 Options exercisable at \$0.10 cents expiring 30th June 2011 to raise \$120,000 before expenses

(viii) 9th November 2009 the Company issued 1,000,000 Secured Convertible Notes at an issue price of \$1.00 per Note to raise \$1,000,000 before expenses.

(ix) 11th November 2009: Eastland Medical Systems Ltd obtained the approval from the Ethics Committee of Kigali University Teaching Hospital in Rwanda to commence clinical trials of its sublingual malaria treatment ArTiMist™.

(x) 20th November 2009, Calvin Ross was appointed to Eastland's Board of Directors as a Non-Executive Director.

(xi) 29th January 2010, the Company sold the business of its wholly owned subsidiary Medical Industries Australia Pty Ltd. The subsidiary company is no longer trading.

**EASTLAND MEDICAL SYSTEMS LTD ABN 35 090 987 250 AND CONTROLLED ENTITIES
PRELIMINARY FINAL REPORT – APPENDIX 4E**

(xii) 28th April 2010 the Company announced the positive results of the completed Phase IIa clinical trial of ArTiMist™, a patented sublingual delivery technology designed to administer the drug Artemether.

(xiii) In the previous financial year, the Company announced its intention to dispose of its medical devices and consumables distribution division. The operations of Medical Industries Australia Pty Ltd was sold during the year as mentioned above but Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical and Medical Supplies (WA) has not yet been sold. The sale of this operation is being actively marketed by external business brokers and by senior management.

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 2010.

After Balance Date Events

(i) On 18th August 2010 the Company issued 56,925,006 fully paid ordinary shares at \$0.04 cents per share to raise \$2,277,000 before expenses. The purpose of the issue is to fund the continued commercialisation and clinical trials program relating to the ArTiMist™ malaria treatment project and working capital.

(ii) On the 9th August 2010, the company announced the death of one of its Non-Executive Directors, Calvin Ross.

(iii) As at 27th August 2010, Mediation Orders were issued in relation to all Supreme Court matters which cover the litigation previously announced.

(iv) As at 31 August 2010, the German insolvency process in relation to HC Berlin Pharma AG is continuing.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE
YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group	
		2010	2009
		\$	\$
Revenue	2	44,937	36,978
Other income		30,954	132,063
Raw materials and consumables used		-	(69,010)
Employee benefits expense		(551,202)	(1,060,871)
Depreciation and amortisation expense		(70,164)	(78,725)
Finance costs		(116,833)	(103,927)
Impairment	3	(1,535,383)	(451,747)
Other expenses		(1,495,538)	(1,383,459)
		<hr/>	<hr/>
Loss before income tax		(3,693,229)	(2,978,698)
Income tax expense		-	-
		<hr/>	<hr/>
Loss from continuing operations	3	(3,693,229)	(2,978,698)
Loss from discontinued operations	4	(1,163,083)	(189,484)
		<hr/>	<hr/>
Loss for the year, attributable to members of the parent entity		<hr/> (4,856,312)	<hr/> (3,168,182)
Other comprehensive income:			
Exchange differences on translating foreign controlled entities		(4,218)	74,190
		<hr/>	<hr/>
Other comprehensive income for the year, net of tax		(4,218)	74,190
		<hr/>	<hr/>
Total comprehensive income for the year		<hr/> (4,860,530)	<hr/> (3,093,992)
Overall Operations			
From continuing and discontinued operations			
Basic earnings per share (cents per share)	5	(0.01)	(0.02)
Diluted earnings per share (cents per share)	5	(0.01)	(0.02)
From continuing operations			
Basic earnings per share (cents per share)	5	(0.01)	(0.02)
Diluted earnings per share (cents per share)	5	(0.01)	(0.02)
From discontinued operations			
Basic earnings per share (cents per share)	5	(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
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Group	
		2010	2009
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		834,295	2,899,329
Trade and other receivables		395,534	1,456,287
Other financial assets		-	361,824
Other assets		10,000	1,153
		<u>1,239,829</u>	<u>4,718,593</u>
Assets of disposal group classified as held for sale		1,528,358	3,290,208
TOTAL CURRENT ASSETS		<u>2,768,187</u>	<u>8,008,801</u>
NON-CURRENT ASSETS			
Trade and other receivables		16,480	16,480
Other financial assets		-	935,290
Property, plant and equipment		105,120	185,582
Investment property		-	397,612
Intangible assets		8,987,930	7,067,198
		<u>9,109,530</u>	<u>8,602,162</u>
TOTAL NON-CURRENT ASSETS		<u>9,109,530</u>	<u>8,602,162</u>
TOTAL ASSETS		<u>11,877,717</u>	<u>16,610,963</u>
CURRENT LIABILITIES			
Trade and other payables		1,475,126	3,166,701
Borrowings		690,074	2,468,420
Short-term provisions		63,651	199,132
		<u>2,228,851</u>	<u>5,834,253</u>
Liabilities associated with the assets classified as held for sale		-	99,067
TOTAL CURRENT LIABILITIES		<u>2,228,851</u>	<u>5,933,320</u>
NON-CURRENT LIABILITIES			
Trade and other payables		-	27,963
Borrowings		1,298,139	1,807,480
Long-term provisions		5,112	-
		<u>1,303,251</u>	<u>1,835,443</u>
TOTAL NON-CURRENT LIABILITIES		<u>1,303,251</u>	<u>1,835,443</u>
TOTAL LIABILITIES		<u>3,532,102</u>	<u>7,768,763</u>
NET ASSETS		<u>8,345,615</u>	<u>8,842,200</u>
EQUITY			
Issued capital	7	31,739,830	27,793,066
Reserves		855,122	442,159
Retained earnings		<u>(24,249,337)</u>	<u>(19,393,025)</u>
TOTAL EQUITY		<u>8,345,615</u>	<u>8,842,200</u>

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Note	Ordinary	Retained Earnings	Share Redemption Reserve	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
	\$	\$	\$	\$	\$	\$	\$
Consolidated Group							
Balance at 1 July 2008	26,376,681	(16,224,843)	5,310	(45,324)	183,334	214,530	10,509,688
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							
— foreign currency reserve				74,190			74,190
— share redemption reserve			(1,337)				(1,337)
— options reserve					225,987		225,987
Adjustments from translation of foreign controlled entities						(214,530)	(214,530)
Option reserve on recognition of bonus element of options							-
Sub-total	27,793,066	(19,393,025)	3,973	28,866	409,321	-	8,842,201
Dividends paid or provided for							-
Balance at 30 June 2009	27,793,066	(19,393,025)	3,973	28,866	409,321	-	8,842,201
Shares issued during the year	4,543,944						4,543,944
Transaction costs	(180,000)						(180,000)
Loss attributable to members of parent entity		(4,856,312)					(4,856,312)
Transfers to and from reserve							
— share redemption reserve							-
— foreign currency reserve				(4,218)			(4,218)
— options reserve	(417,180)				417,180		-
Sub-total	31,739,830	(24,249,337)	3,973	24,648	826,501	-	8,345,615
Dividends paid or provided for							-
Balance at 30 June 2010	31,739,830	(24,249,337)	3,973	24,648	826,501	-	8,345,615

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group	
		2010	2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		8,058,200	13,211,315
Interest received		21,055	122,092
Payments to suppliers and employees		(10,108,258)	(14,542,980)
Finance costs		(168,462)	(467,937)
Net cash provided by (used in) operating activities		<u>(2,197,465)</u>	<u>(1,677,510)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		55,182	-
Proceeds from disposal of business operations of subsidiary		1,468,255	-
Proceeds from sale of intellectual property		-	60,823
Purchase of property, plant and equipment		(30,135)	(34,247)
Purchase of available-for-sale investments		-	(1,894)
Payment for development of products		(1,857,475)	(69,772)
Payment for subsidiary, net of cash acquired		-	(136,715)
Net cash provided by (used in) investing activities		<u>(364,173)</u>	<u>(181,805)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,195,781	2,912,646
Proceeds from borrowings		-	1,724,447
Repayment of borrowings		(2,392,838)	(211,664)
Payments for Capital Raising Costs		(306,339)	(83,874)
Net cash provided by (used in) financing activities		<u>496,604</u>	<u>4,341,555</u>
Net increase in cash held		(2,065,034)	2,482,240
Cash at beginning of financial year		2,899,329	417,089
Effect of exchange rates on cash holdings in foreign currencies		-	-
Cash at end of financial year		<u>834,295</u>	<u>2,899,329</u>

The accompanying notes form part of these financial statements.

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EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The preliminary final report of the Company for the year ended 30 June 2010 comprises the Company and its controlled entities (the "Consolidated Entity" or "Group").

Note 1 **Statement of Significant Accounting Policies**

Basis of Preparation

The preliminary final report is presented in Australian dollars and has been prepared on an accrual basis and is based on historical cost basis except for selected current and non-current assets which are measured at fair value at reporting date.

The preliminary final report has been prepared in accordance with Australian Securities Exchange Listing Rules as they relate to Appendix 4E and in accordance with the recognition and measurement requirements of the Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the AASB and the Corporations Act 2001.

As such, the preliminary final report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance and financial position as the full financial report. It is recommended that the preliminary final report be considered together with any public announcements made by the Company in accordance with the continuous disclosure obligations of the Australian Securities Exchange Listing Rules.

Note 2 **Revenue and Other Income**

	Note	Consolidated Group	
		2010	2009
		\$	\$
Sales Revenue			
— sale of goods		14,215	19,353
Total Sales Revenue		14,215	19,353
Other Revenue			
— interest received		21,055	7,125
— rental revenue for property investment		9,667	10,500
Total Other Revenue		30,722	17,625
Total Sales Revenue and Other Revenue		44,937	36,978
Other Income			
— gains on disposal of non-current investments			125,000
— gains on disposal of non current assets		20,000	
— other income		10,954	7,063
Total Other Income		30,954	132,063
(a) Interest revenue from:			
— other persons		21,055	7,125
		21,055	7,125

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EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 3

Loss for the Year

	Consolidated Group	
	2010	2009
	\$	\$
(a) Expenses		
Cost of sales	-	69,010
Interest expense on financial liabilities not at fair value through profit or loss:		
— Other persons	116,833	103,927
Total interest expense	<u>116,833</u>	<u>103,927</u>
		-
Impairment loss - goodwill	-	69,060
Impairment loss - investment	1,231,089	-
Impairment loss	<u>304,294</u>	<u>382,687</u>
	<u>1,535,383</u>	<u>451,747</u>
Bad and doubtful debts:		
— trade receivables	-	45,752
— other related parties	-	72,967
Total bad and doubtful debts	<u>-</u>	<u>118,719</u>
		-
Loss on disposal of property, plant and equipment	-	239,177
Write-off of obsolete stock	-	238,062
Legal and professional fees	901,202	204,580

Note 4

Discontinued Operations

In the previous year, the consolidated group announced its decision to dispose of its medical devices and consumables distribution division, thereby discontinuing its operations in this business segment.

One of the operating entities within this division was sold on 29 January 2010. The other entity has not been sold as at the reporting date.

The financial performance of the discontinued operations which is included in loss from discontinued operations per the income statement is as follows:

Revenue	6,995,407	12,228,519
Expenses	(7,778,342)	(12,418,003)
Impairment - goodwill	(552,041)	-
Loss before income tax	<u>(1,334,976)</u>	<u>(189,484)</u>
Income tax expense	-	-
Loss attributable to members of the parent entity	<u>(1,334,976)</u>	<u>(189,484)</u>
Profit on sale before income tax	171,893	-
Income tax expense	-	-
Profit on sale after income tax	<u>171,893</u>	<u>-</u>
Total loss after tax attributable to the discontinued operations	<u>(1,163,083)</u>	<u>(189,484)</u>

The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:

Net cash inflow/(outflow) from operating activities	92,614	233,513
Net cash inflow from investing activities	1,038,182	10,983
Net cash (outflow) / inflow generated by the discontinuing operations	<u>(1,189,702)</u>	<u>(160,000)</u>
	<u>(58,906)</u>	<u>84,496</u>

The gain on disposal of the operation is included in loss from discontinued operations per the statement of comprehensive income.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 5 Earnings per Share

		Consolidated Group	
		2010	2009
		\$	\$
(a)	Reconciliation of earnings to profit or loss		
	Loss	(4,856,312)	(3,168,182)
	Earnings used to calculate basic EPS	(4,856,312)	(3,168,182)
	Earnings used in the calculation of dilutive EPS	(4,856,312)	(3,168,182)
		No.	No.
(b)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	356,625,455	199,345,089

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

Note 6 Controlled Entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)	
		2010	2009
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
Star Medical (Botswana) Ltd	Botswana	100.00	100.00
Eastland Medical Systems S.A. Pty Ltd	South Africa	100.00	100.00
Phoenix Medical Services Pty Ltd	Australia	100.00	100.00

Note 7 Issued Capital

		Consolidated Group	
		2010	2009
		\$	\$
Gross capital proceeds		32,775,482	28,231,537
Capital raising costs		(1,035,652)	(438,471)
374,507,678 (2009: 228,471,789) fully paid ordinary shares		31,739,830	27,793,066

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EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 7 continued

Ordinary Shares	Consolidated Group	
	2010	2009
	No.	No.
At the beginning of reporting period	228,471,789	191,977,021
Shares issued 1 July 2008 to 30 June 2009		36,494,768
Shares issued during year:		
01/07/2009 - Pro-rata Non-Renounceable Rights Issue	42,372,712	
15/07/2009 - Shortfall placement (Patersons Securities) Rights Issue	43,679,850	
03/08/2009 - Shortfall placement (Cunninghams) Rights Issue	23,333,333	
04/09/2009 - Capital Raising / Placement	12,500,000	
17/09/2009 - D O'Sullivan - Settlement for Star Medical shares	1,266,667	
15/10/2009 - R M Corporate Finance - Corporate Advisory Mandate	4,000,000	
14/01/2010 - Conversion of Convertible Notes	333,333	
08/02/2010 - Conversion of Convertible Notes	250,000	
09/02/2010 - Conversion of Convertible Notes	1,300,000	
07/04/2010 - Conversion of Convertible Notes	500,000	
23/04/2010 - Conversion of Convertible Notes	8,033,329	
30/04/2010 - Conversion of Convertible Notes	1,366,666	
19/05/2010 - Conversion of Convertible Notes	7,099,999	
At reporting date	<u>374,507,678</u>	<u>228,471,789</u>

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