



DELIVERING EMERGENCY MEDICAL SOLUTIONS DEDICATED TO IMPROVING PATIENT OUTCOMES



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CHAIRMAN'S AND CEO'S REPORT



DAVID WILLIAMS CHAIRMAN



JOHN SHARMAN CEO

CONTINUING GROWTH AND INVESTING IN THE FUTURE

Medical Developments International Limited. ('MDI') (ASX: MVP) delivered a **Net Profit after Tax of \$2,309,309** for the year ended 30 June 2013.

MDI finished the year investing \$4.9 million in clinical trials, R&D and product development and paid two 3 cent fully-franked dividends (6 cents fully franked) for the year ending 30 June 2013.

The Board has declared a further 2 cent fully franked dividend.

THE FINANCIAL RESULT REPRESENTS:



GROWTH IN SALES TO A RECORD **\$11.73 MILLION**



GROWTH IN GROSS MARGIN TO A RECORD **\$8.33 MILLION**

87%

GROWTH IN RESPIRATORY MEDICAL DEVICES SALES IN AUSTRALIA

28%

GROWTH IN WORLD-WIDE RESPIRATORY DEVICE SALES

20%

GROWTH ACROSS ALL MEDICAL DEVICE SALES

53%

GROWTH IN INTERNATIONAL PENTHROX® BUSINESS

76%

GROWTH FOR PENTHROX® IN HOSPITAL IN AUSTRALIA

SUMMARY OF KEY ACHIEVEMENTS

KEY ACHIEVEMENTS

2012/2013

- MDI paid fully-franked dividends totalling 6 cents per share.

PENTHROX®

- Completed a 300 patient Pivotal Phase III Clinical Trial in Europe.
- Completed a 'Thorough QT/QTc' Clinical Trial (study into Pentrox® impact on the heart).
- Completed a 250 patient colonoscopy study at Royal Adelaide Hospital.
- Publication of our Phase III Bone Marrow Biopsy Clinical Study conducted at Peter MacCallum Cancer Centre.
- Appointed advisors to locate suitable business partners for Pentrox® in Europe.
- Progressed regulatory applications for sale of Pentrox® in other countries.
- Pentrox® approved for reimbursement in New Zealand.

RESPIRATORY MEDICAL DEVICES

- Won tender to exclusively supply GSK Australia with Asthma devices.
- Achieved reimbursement approval for the cost of Space Chambers in the UK.
- Won a tender to supply Canadian hospitals with our Space Chambers.
- Launched additional products in our range of Asthma Space Chambers.
- Lodged application with FDA to approve *Space Chamber Plus* range for sale in the USA.
- Completed independent trials in North America on *Space Chamber Plus* range.
- European subsidiary recorded first Respiratory Device sales in the UK.

OTHER

- Signed agreement with CSIRO to develop an improved methoxyflurane production process and successfully completed first phase of the project.
- Significant success improving manufacturing costs and efficiency.
- Increased investment in marketing, regulatory, product development and new business units.

REVIEW OF OPERATIONS

2013 was a year of significant investment in the future of our business. The investment in our regulatory, sales, manufacturing, product development and research teams was significant.

PHARMACEUTICALS

During the year, MDI completed a range of clinical studies designed to improve the clinical and safety data for the use of Pentrox®. MDI has invested more than \$5.3 million since the beginning of 2011 and completed and or finalised the publication of the following clinical studies:

- (i) Phase III Pivotal Study in the United Kingdom;
- (ii) Phase III Bone Marrow Biopsy Clinical Study;
- (iii) 'Thorough QT/QTc' Clinical Study in Australia;
- (iv) A Clinical Study to evaluate the cardiovascular and respiratory effects of inhaled methoxyflurane;
- (v) Colonoscopy Study at Royal Adelaide Hospital; and
- (vi) Other supportive Clinical Studies.

All endpoints and objectives of these studies were met on time and on budget.

Completion of these Clinical Studies provides the company with clinical trial data to include in its Regulatory Dossier. This Dossier will form the basis of marketing applications to sell Pentrox® in Europe and other markets around the world.

MDI expects to finalise and submit the European Marketing Approval ('MA') application sometime before the end of September 2013.

Other clinical trials in Iran and Australia are progressing well and we continue to assess further clinical trials that present significant commercial opportunities and open up new areas of use for Pentrox®.

USA

We have appointed regulatory experts to advise on getting Pentrox® approved for sale in the USA.

JAPAN

Last year MDI signed a licencing agreement with Nippon Zoki to sell Pentrox® in Japan. Nippon Zoki is currently in negotiation with the Pharmaceuticals and Medical Devices Agency (PMDA) in Japan in regard to the clinical trial data required to register Pentrox® in Japan. The registration process in Japan is expected to take several years but the market opportunity is significant.

EUROPE

In June, MDI appointed advisors to find Marketing partners for various European markets. Whilst in the very early stages, this initiative is progressing well.

EASTERN EUROPE AND MIDDLE EAST

Internationally, our Pentrox® business **grew by 53%** and our Eastern European Pentrox® business **grew by 40%**. Our Middle East Pentrox® business **grew 20%** year on year.

NEW ZEALAND

Our New Zealand business **grew 29%**. In May 2013, the use of Pentrox® was approved for reimbursement in New Zealand hospitals. This means Pentrox® can be used in all hospitals in New Zealand and is fully reimbursed by the New Zealand government, which represents a significant opportunity for growth.

AUSTRALIA

Domestically, several parts of the Pentrox® business showed solid growth. Our hospital business **grew 76%**, our Dental business **grew 22%** and our Cosmetics business **grew 11%**. Our Ambulance business decreased due to a change in usage from two customers.

MEDICAL DEVICES

RESPIRATORY

Our Respiratory Device business in Australia **grew 87%** during the year. Globally our Respiratory Device business **grew 28%**. Our *Space Chamber Plus* range of Respiratory Devices continue to win market share and new markets.

USA

During the year we lodged a 510K application to have our range of *Space Chamber Plus* devices approved for sale into the USA. We expect to have approval to sell in the USA before the end of December 2013. Our initial assessment of the USA market is there are approximately 20 million devices sold each year. Our products are amongst the world's best and our ambition is to win significant market share over the next three years.

EUROPE

In April 2013 our *Space Chamber Plus* range of devices was listed for reimbursement by the MHRA in the UK and we are now seeing our first sales in the UK through our UK office. We expect to increase sales from our European business over the coming years.

NEW ZEALAND

Our New Zealand business continues to perform strongly where we have significant market share.

OTHER

We now have established distribution capabilities in the UK, Canada, Germany, Belgium, Holland, Luxemburg, Switzerland, Hong Kong, Singapore, New Zealand, UAE and Asia. We are expecting to add to this network in the near term.

VET

The overall contribution to profits from our Vet business was equal to FY12. Sales in our Vet business fell 5% mainly due to reduced sales in Europe. We expect our European business to recover during FY14.

RESEARCH AND DEVELOPMENT

MDI announced in July 2012 we had launched a significant research initiative with the CSIRO aimed at improving the productivity and reducing the cost of our pharmaceutical manufacturing business. This initiative is progressing well and we have successfully completed the first phase of this project. If successful this initiative will deliver significant production cost benefits and valuable intellectual property to MDI in the short to medium term.

PRODUCT DEVELOPMENT

Since the beginning of 2011, MDI has made a significant investment building its internal product development capabilities which will continue into FY2014. During the year, MDI developed and/or launched:

ASTHMA MEDICAL DEVICES

- *Space Chamber Plus* autoclavable;
- *Space Chamber Plus* Compact antistatic;
- *Space Chamber Plus* Combo Pack.

OTHER MEDICAL DEVICES

- New Face Masks;
- Emergency Equipment Bags;
- Tourniquet;
- Emergency Medical Consumables;
- Guedel Airways.

FUTURE PRODUCTS

MDI has a number of products in development which it hopes to launch during FY2014 which include:

- a new Pentrox® product;
- a new Vet anaesthetic machine;
- a new electronic Peak Flow Meter;
- a new range of oxygen and nebuliser masks;
- a new range of *Space Chamber Plus* devices; and
- a new range of Oxygen regulators.

OPERATIONS

OPERATING EXPENSES

During the year, the Company invested heavily in our regulatory, product development, sales, marketing and research and development teams.

The investment in clinical studies, research and development and product development has been capitalised to intangible assets where appropriate and were in part funded by borrowings.

Overall the operating costs to sales ratio for the year was 43.2% (37.6% : FY12). We expect improvement in this ratio in FY14.

CASH FLOW

During the period the Company achieved a 4% increase in cash receipts as a result of increased sales. The Company invested its cash reserves as follows:

1. \$2.5 million to further develop intangible assets;
2. \$2.3 million paying dividends; and
3. \$0.5 million to purchase fixed assets.









SUMMARY

MDI continues to improve all aspects of its business. During this year, the MDI share price increased from \$0.79 to \$1.60 (as of 20 August 2013).



REVIEW OF OPERATIONS

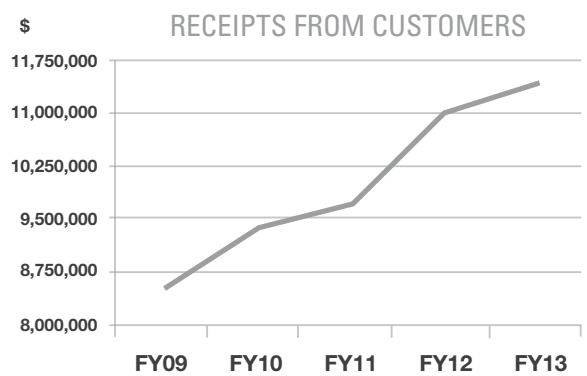
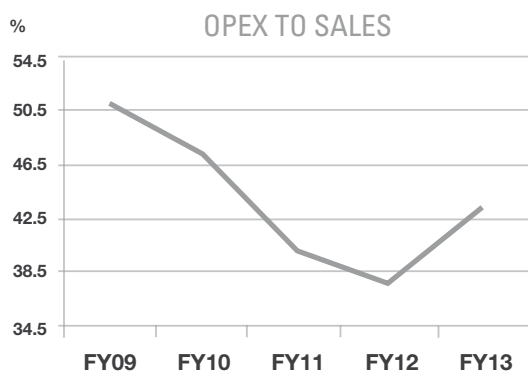
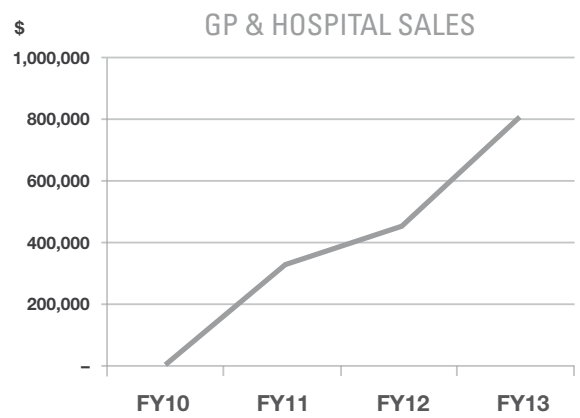
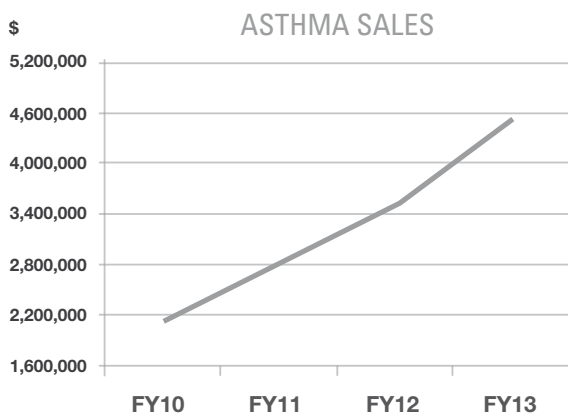
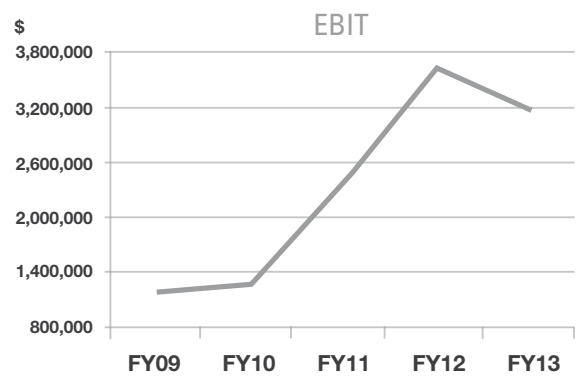
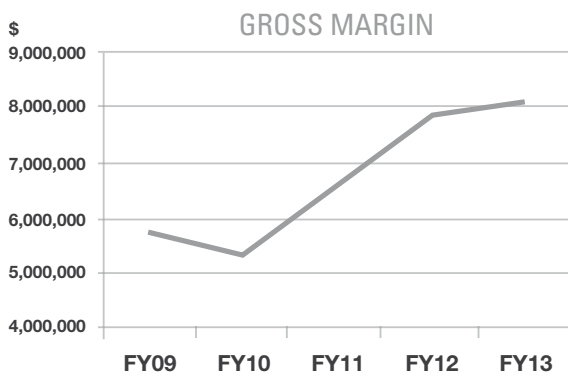
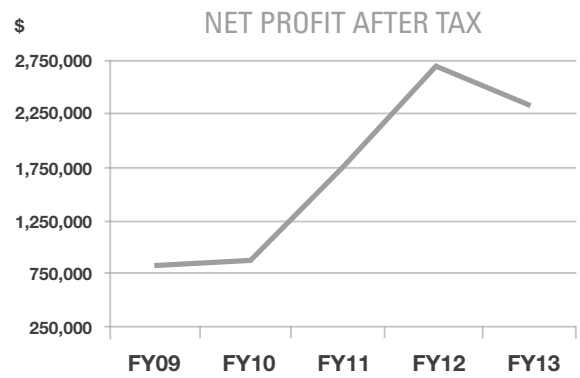
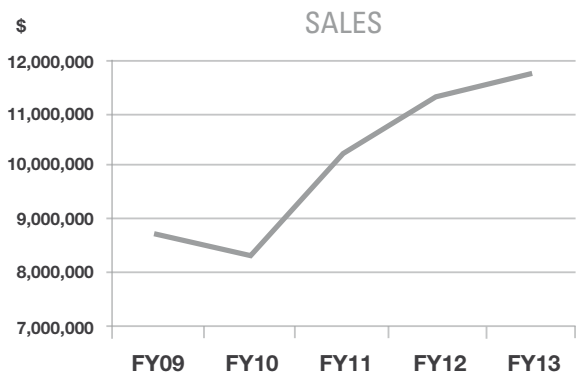
KEY VALUE DRIVERS

2013

-  Continue to provide unique and innovative products to assist customers in the management of acute and procedural pain.
-  Continue to provide unique and innovative products to assist customers in the delivery of asthma medications.
-  Continue to provide unique and innovative products to assist customers in the resuscitation and oxygen therapies for human and veterinary patients.
-  Continue to grow Pentrox® sales.
-  Develop a world class Regulatory Dossier to facilitate the registration of Pentrox® in as many new countries as possible.
-  Work pro-actively to develop clinical trials which are likely to lead to a future commercial gain, confirm the safety and efficacy of Pentrox® and raise market awareness in new channels.
-  Develop a wider product offering of medical equipment to capitalise on our market leading position as the leading supplier to Ambulance Services.
-  Continue to identify and implement operational improvements.

VISION

-  Dominate the international markets for inhaled analgesics by providing a range of low cost, high margin, fast acting, safe and category leading Pentrox® products.
-  Grow MVP into the leading international manufacturer and provider of Respiratory Medical devices.



REVIEW OF OPERATIONS

DIVIDEND

The Board of Directors is pleased to declare a Final Dividend of 2 cents per share fully-franked.

MDI intends to make its Dividend Reinvestment Plan available for shareholders to use the proceeds from the Final Dividend to purchase MDI shares at a fixed price of \$1.27 per share, representing the 90 day Volume Weighted Average Price up to and including 22 August 2013.

The timetable for the Final Dividend for the year ended 30 June 2013 is:

KEY DATES	EVENT
23 August 2013	Declaration of Final Dividend
6 September 2013	Record Date for eligible shareholders to receive dividend
27 September 2013	Date for shareholders to elect to participate in Dividend Reinvestment Plan
11 October 2013	Payment Date

OUTLOOK

Our strategy to introduce Pentrox® to new markets revolves around the development and delivery of a world class Regulatory Dossier. We are well on the way to achieving this strategy with our clinical trials in the UK, Australia and elsewhere. We intend to submit our Marketing Authorisation Application to have Pentrox® approved for sale in selected European countries to the authorities in the UK before the end of September and we have applications for registrations currently being considered in a number of other countries.

Our focus on improving efficiencies in all aspects of our business whilst growing sales will continue and our project with the CSIRO relating to the manufacturing of methoxyflurane has the potential to transform the cost base of our products over the next few years.

MDI is well placed to deliver future growth through its range of respiratory equipment and devices. We are working towards expanding our existing Australian and international business and opening new markets in Europe and the USA.



MR JOHN SHARMAN
Chief Executive Officer



MR DAVID WILLIAMS
Chairman

PRODUCT PORTFOLIO

PHARMACEUTICAL

ANALGESIA

Penthrox®

3ml and 1.5ml Dose Inhaler

MEDICAL

ASTHMA

Autoclavable Space Chamber®

Space Chamber® Combo Standard

Space Chamber® Combo Compact

Space Chamber® Combo

Space Chamber Plus®

Compact Space Chamber Plus®

Space Chamber® aerosol spacer

Antistatic Space Chamber®

Breath-Alert® peak flow meter

MyMDI™ Portable Nebuliser

MyMDI™ Pulse Oximeter

MyMDI™ Electronic Peak Flow Meter

OTHER

Tournique

FACE MASKS

EZ-fit silicone and disposable face masks

Respiratory Silicone Masks

OXYGEN

OXI-Port® oxygen therapy device

OXI-Sok oxygen therapy device

OXI-Pro oxygen resuscitation device

OXI-Life oxygen resuscitation device

OXI-Saver™ closed circuit oxygen resuscitation device

OXI-Dive closed circuit oxygen resuscitation device

OXI-Vac™ suction system

REGULATORS

KDK™ regulator/flow meter with oxygen flush

ABSORBERS

KAB™ carbon dioxide absorber

VETERINARY

ANAESTHESIA

MK5 closed circuit anaesthetic machine

LANA closed circuit anaesthetic machine

Mini-KOM™ anaesthetic machine

Breath-Alert® breathing monitor

PHARMACEUTICAL

MVP is a world leader in the management of acute and procedural pain

BUILDING OUR BUSINESS

MVP manufactures its world leading inhaler analgesic from its premises in Springvale, Victoria, Australia. MVP is the sole manufacturer of the active molecule worldwide and continues to develop new markets and applications for the iconic brand Pentrox®.

Pentrox® continues to be used as a 'first line' product for the treatment of pain in trauma by Ambulance Services in all States and Territories of Australia. Moving forward, the strategy to strengthen the association and collaboration with all Ambulance Services will include offering a more complete range of products required by the Ambulance Services, enhanced training support and direct communication with front line for specific applications.

MVP continues to develop its market research and the application of its products within Australia and internationally

PRODUCT SUITE

MVP is considering to add an alternative inhaled analgesic to its product range and continues to build on its reputation as the leading provider of pharmaceutical and medical equipment used in the management of acute and procedural pain.

THE MARKET

MVP continues to develop its market research and the application of its products within Australia and internationally.

THE FUTURE

MVP is focused on building an international business for Pentrox® and believes it has the attributes to dominate the analgesic market nationally and internationally.



MEDICAL DEVICES

Building our product range

MVP's focus in FY14 will be to add to our established product range, to accelerate the sales growth that has been established with our current partnerships in Australia and overseas and at the same time develop new collaborations for future growth. Core to the growth is the development of new and improved models of:

- Asthma Space Chambers
- Combination Space Chamber and Masks product range
- Peak Flow Meters
- Pulse Oximeters
- Masks
- Tourniquets
- Emergency Medicine consumable equipment

RESPIRATORY DEVICES

MVP's Respiratory devices business has been strong in recent years and continues to provide solid sales and profit.

The success of this business over the last 2 years has been due to these key factors:

- Developing a range of leading respiratory products
- The strength of our Respiratory devices business with our partner in New Zealand
- The strength of our Respiratory devices business in Australia
- The development of our international Respiratory device business
- Consistent sales of our range of Asthma products through established partners in various countries around the world

PRODUCT DEVELOPMENT

MVP's range of Respiratory medical devices is well known and accepted as market leaders in domestic and international markets.

MVP's future growth will continue as it invests and introduces new products and develops new international markets.



MVP's range of Respiratory medical devices is well known and accepted as market leaders in domestic and international markets

OXYGEN & OTHER MEDICAL EQUIPMENT

Safe, precision engineering and custom design kits and accessories

MVP manufactures a range of oxygen therapy and resuscitation equipment, providing healthcare professionals and trained personnel with the ability to administer oxygen to patients in an emergency situation. These devices range from basic through to advanced systems of delivering oxygen therapy or resuscitation.



PRODUCT SUITE

- OXI-Port® oxygen therapy device
- OXI-Sok oxygen therapy device
- OXI-Pro oxygen resuscitation device
- OXI-Life oxygen resuscitation device
- OXI-Saver™ closed circuit oxygen resuscitation device
- OXI-Dive closed circuit oxygen resuscitation device
- OXI-Vac™ suction system

These products are all custom assembled and tested at MVP's facilities in Melbourne, Australia.

THE MARKET

The MVP's oxygen equipment is purchased and used by:

- Ambulance services
- Fire brigades
- Life saving clubs
- Military

These devices range from basic through to advanced systems of delivering oxygen therapy or resuscitation

VETERINARY

MVP to re-invigorate its Vet product range

PRODUCTS

- Anaesthetic machines
- Vaporisers
- Breathing monitors

THE MARKET

MVP offers a range of open and closed circuit anaesthetic machines to the veterinary market, which are popularly known as Komesaroff anaesthetic machines. The Company has developed a unique market position regarding the design, manufacture and supply of closed circuit anaesthetic machines to this particular niche market in Europe. Whilst the majority of MDI's veterinary products continue to be sold in Europe, MVP continues to develop new products to improve sales in local and international markets.

NEW PRODUCT DEVELOPMENT

MVP's Breath-Alert® breathing monitor (Mark IV) continued to sell well on new but simple selling features such as size (smaller unit), ease of use and battery longevity.

The company has developed a unique marker position regarding the design, manufacture and supply of closed circuit anaesthetic machines



BOARD OF DIRECTORS



MR DAVID WILLIAMS
Non-Executive Chairman

Managing Director of Kidder Williams Ltd, with over 29 years experience in the investment banking sector. He is also a Director of IDT Australia Ltd. Mr Williams is Chairman of the Remuneration and Nominations Committee.



MR ALLAN MCCALLUM
Non-Executive Director

Chairman of Tassal Group Ltd and Non-Executive Director of Incitec-Pivot Ltd. Mr McCallum has over 15 years public companies experience including an ASX 50 company and has served on numerous committees including: Audit, Remuneration & Nomination, and as an Independent Director on Related Parties (Governance) Committees. Mr McCallum is a member of the Remuneration and Nominations Committee.



DR HARRY OXER ASM
Non-Executive Director

Dr Oxer is a Medical Consultant to MDI and St John Ambulance in Western Australia. Dr Oxer was a long-time member of the State Executive for St John Ambulance (WA) until his retirement in rotation in 2012, and was the previous Medical Director for twenty-six years. He has taught, lectured and published extensively over the years, both nationally and internationally. Dr Oxer is also a past Chairman of the Australian Resuscitation Council and has a major interest in resuscitation, oxygen therapy, and pain relief.



MR MAURICE VAN RYN
Non-Executive Director

Mr Van Ryn was a senior executive for 27 years of Bega Cheese Limited, 15 years as CEO and recently International Business Development Manager of that company. Mr Van Ryn resigned from Bega Cheese Limited in November 2012. He is also Chairman of the pharmaceutical manufacturer and marketer, Probiotec Ltd. Mr Van Ryn has over 35 years experience in the direct management of food companies and has extensive experience in launching and marketing products into international markets. Mr Van Ryn is the Chairman of the Audit & Risk Committee.



MR MAX JOHNSTON
Non-Executive Director

Mr Johnston is a non-executive director of Enero Group Limited and Probiotec Limited. For 11 years he was President and Chief Executive Officer of Johnson & Johnson Pacific and an Executive Director of Johnson & Johnson. Max has also held several prominent industry roles as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the board of ASMI. Max has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe, Africa as well as Asia-Pacific. Mr Johnston is a member of the Audit & Risk Committee.

FULL-YEAR REPORT & APPENDIX 4E

FINANCIAL YEAR ENDED 30 JUNE 2013

(PREVIOUS CORRESPONDING PERIOD: FINANCIAL YEAR ENDED 30 JUNE 2012)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The following information is provided in accordance with ASX Listing Rule 4.3C.2

		PERCENTAGE CHANGE		AMOUNT \$'000
Revenue from ordinary activities	Up	3.7%	to	11,733
Profit after tax from operating activities attributable to members	Down	14.6%	to	2,309
Net Profit after tax attributable to members	Down	14.6%	to	2,309

EARNINGS PER SHARE

Basic earnings per share for the year ended 30 June 2013 was 4.1 cents (30 June 2012: 5.1 cents).

NET TANGIBLE ASSETS

Net tangible asset backing per ordinary share as at 30 June 2013 was 2.5 cents (30 June 2012: 8.0 cents).

BRIEF EXPLANATION OF THE FIGURES ABOVE

Refer to the preceding review of operations.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held as follows:

Place:	Deloitte Level 10, 550 Bourke Street, Melbourne
Date:	29 October, 2013
Time:	10.30am

FINANCIALS

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CORPORATE GOVERNANCE STATEMENT

The Board of Directors is ultimately responsible for all matters relating to the running of the company and is committed to implementing the highest standards of corporate governance.

The Board's role is to govern the organisation rather than manage it. It is the purpose of senior management to manage the organisation in accordance with the direction of the Board. The Board is responsible for:

- setting the goals of the company, including short-term, medium-term and long-term objectives;
- providing the overall strategic direction of the company;
- appointing and approving the terms and conditions of the Chief Executive Officer and reviewing their ongoing performance;
- endorsing the terms and conditions of senior executives through the Remuneration Committee;
- establishing and determining the powers and functions of the committees of the board, including the Audit & Risk Committee and the Remuneration Committee;
- reviewing the Board's structure and performance from time to time and making decisions on new appointments to the Board;
- approving the annual budget and long-term budgets;
- approving all mergers and acquisitions, and property acquisitions and disposals;
- the issue of any shares, options, equity instruments or other securities in MDI or its subsidiaries;
- determining the ethos of the company and ensuring that the group adheres to appropriate standards and values and applicable laws; and
- representing the interests of shareholders.

To assist in the execution of these responsibilities, the Board has two Board Committees being:

- an Audit and Risk Committee (Mr M Johnston & Mr M Van Ryn); and
- a Remuneration and Nominations Committee (Mr D Williams & Mr A McCallum).

All other functions of the Board will be dealt with by the Board as a whole. However, from time to time, the Board may determine to establish specific purpose sub-committees to deal with specific issues.

SHARE TRADING

The Board has adopted a share trading policy for Directors and officers of the company. The Policy regulates dealings by Medical Developments International Limited ('MDI') directors, officers and employees in MDI securities.

The standards and conduct adopted by the Board reflect, where applicable, the standards for Corporate Governance as provided in the ASX Corporate Governance Principles established by the ASX Corporate Governance Council.

The following sections summarise MDI's compliance with these principles. Unless explicitly stated otherwise, the Directors believe MDI complies with the Corporate Governance Council's recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Duties of the Board and of management are clearly segregated and stated in the company's corporate governance manual. The Board's role and responsibilities are also summarised above. Senior executives are evaluated by the remuneration committee annually, based on the company's performance and specific key performance indicators set for the respective senior executive.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The directors believe that the composition, size and commitment of the Board will allow it to effectively discharge its responsibilities and duties. To this end, currently four of the five Board members are independent under the definition of the Council. Furthermore, while the Chairman, Mr Williams is not considered independent under the Council definition and thus recommendation 2.2 is not followed, the Board does not believe that Mr Williams being a substantial shareholder has had or will have any adverse impact on the conduct of MDI's affairs or the representation of the interests of other shareholders. Furthermore, the roles of Chairman and CEO are not exercised by the same individual.

To further ensure Directors can fulfil their obligations, the Board has adopted a policy, contained in the company's

corporate governance manual that allows directors to take independent professional advice, at the expense of the company.

The Board has established a Remuneration and Nominations committee as suggested by recommendation 2.4.

The company has no formal process for evaluating the performance of its board, committees and individual Directors. As such, recommendation 2.5 is not followed; the Board has instead used regular informal assessments to evaluate its performance.

The information required by recommendation 2.6 regarding the skills, experience and expertise of the individual Directors is included in the Director's Report and is not repeated here.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board actively promotes ethical and responsible decision-making.

RECOMMENDATION 3.1

Companies should establish a code of conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has established and disclosed (in its Induction Handbook) its Code of Conduct in accordance with this recommendation. The Code of Conduct applies to Directors, managers and employees of the Company. The Code of Conduct is reviewed as necessary to ensure it reflects the high ethical standards of conduct necessary to maintain confidence in the Company's integrity.

The Board has implemented and disclosed a share trading policy covering Directors, senior executives and employees. The directors are aware of their responsibility to communicate any share trading to the company, and the company notifies the ASX of any share transactions within the allowed five business days.

The Board has adopted a policy for trading in Medical Developments International securities by Directors

and employees. The purpose of this policy is to define the circumstances in which Directors, employees and any associates are permitted to deal in securities. This policy was updated in 2010 and disclosed on the ASX in December 2010 in accordance with the ASX Listing Rules. The updated policy addresses each of the ASX requirements including provisions relating to the prohibition of trading by directors and senior management in the Company's securities during defined periods.

RECOMMENDATION 3.2

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The Company has established and disclosed (on its website) its Diversity Policy in accordance with the recommendation.

RECOMMENDATION 3.3

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Board believes in the value of diversity but does not believe that given the size of the company and the resources available to it, that formalising measurable objectives for achieving gender diversity is appropriate. As the company grows, the Board will continue to monitor the Diversity Policy including formalising measurable objectives for achieving gender diversity.

RECOMMENDATION 3.4

While there is currently no gender diversity on the Board, the Board is made up of individuals from various professions, cultures and backgrounds.

The Company's workforce is comprised of three distinct employee groups:

1. Employees engaged in senior management roles which constitutes 24% of the workforce;
2. Employees engaged in middle management roles which constitutes 10% of the workforce; and
3. Employees engaged in tier three level activities such as production, sales, and administration type roles which constitutes 66% of the workforce.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has ensured there is a structure in place to independently verify and safeguard the integrity of the company's financial reporting.

The Board has established an audit committee comprised of two non-executive Directors. While this is less than the three required by recommendation 4.2, the Board believes a three member committee is impractical given the overall size of the Board and that the current composition of the committee allows it to discharge its mandate effectively. The Committee's Charter is contained within the company's Corporate Governance manual.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

The company has put in place mechanisms designed to ensure compliance with the ASX Listing rules and Corporations Act requirements regarding continuous disclosure. The corporate governance manual details the company policy and all management staff are made aware of it. The company is committed to ensuring all market participants have equal access to information and so updates and presentations continue to be provided to the ASX and posted on the company website. If a presentation contains information that is not public and may have a material effect on the share price, the material is sent to the ASX prior to the presentation being made.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Board of Directors has adopted a policy to ensure that shareholders are informed of all major developments affecting MDI in a timely manner. In accordance with this policy, information is communicated in a variety of ways including:

- A half-yearly report containing summarised financial information and a review of operations
- An annual report with detailed financial information and review of the operations of the company and future outlook
- Updates on operations and developments lodged with the ASX

- A comprehensive website carrying latest news and containing an investor relations section which includes corporate governance information and an archive of periodic reports and ASX releases

The external auditor is required to attend the Annual General Meeting and is available to answer questions. Furthermore, the company encourages shareholders to attend the Annual General Meeting and ask questions.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The management of risk is considered by the Audit and Risk Committee. The Board determines whether management has developed and implemented a sound system of risk management and internal control.

The Chief Executive Officer and Finance Manager state to the Board in writing that there is a sound system of risk management and internal compliance and control within the company and that this system operates effectively in ensuring that financial reporting risks are managed such that the declaration required by s.295A of the Corporations Act can be provided.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration committee to ensure Directors and executives are remunerated appropriately. The committee reviews remuneration packages at least annually in the light of market conditions and the performance of the company. The Remuneration report contained within the Directors' Report includes considerable detail on the current remuneration of directors and executives including how performance conditions for performance related payments are chosen and assessed.

DIVERSITY

The Company has established a policy concerning diversity which is available on its website. The policy outlines the Company's commitment to diversity, which is underpinned by the following key principles:

- Attracting, engaging and retaining a talented and diverse workforce;
- Recognising the need for workplace flexibility to support the role employees at all levels have outside of the workplace;

- Improving the quality of decision-making, creativity, productivity and teamwork;
- Enhancing service delivery through a workforce that respects and reflects the diversity of our customers;
- Building and maintaining a safe work environment by taking action against inappropriate behaviour (including discrimination, harassment, bullying, victimisation and vilification); and
- Facilitating equal employment opportunities by considering a broad and diverse talent pool and making decisions based on merit, ability, performance and potential.

The Company's Diversity Policy outlines the following key areas of focus:

- Conducting recruitment in a structured manner consistent with Equal Employment Opportunity principles and the objectives of this policy;
- Undertaking structured talent management and succession planning reviews;
- Undertaking targeted diversity, culture and engagement initiatives;
- Establishing and reviewing appropriate and aligned human resource policies and procedures; and
- Consistent messaging in internal communication.

ANNUAL REPORTING ON THE COMPANY'S DIVERSITY POLICY AND PROPORTION OF WOMEN

There are two women currently in senior management roles. Overall women represent 49% of the workforce of the Company.

The Company has implemented a strategy designed to increase the representation of women at the senior management level. This has seen the representation of women significantly increase over the past 12 months.

To aid in the attraction and retention of female employees, the Company has carer's leave in place as well as making part-time work available. The Company always seeks to accommodate individual circumstances to ensure all employees can manage their work-life balance.

DIRECTORS' REPORT

The directors of Medical Developments International Limited ('MDI') herewith submit the annual financial report of the company for the financial year ended 30 June 2013. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

INFORMATION ABOUT THE DIRECTORS

The names and particulars of the directors of the company during or since the end of the financial year are:

MR D J WILLIAMS, B.EC (HONS), M.EC, FAICD Non-Executive Chairman

Managing Director of Kidder Williams Ltd, with over 29 years experience in the investment banking sector. He is also a Director of IDT Australia Ltd. Mr Williams is Chairman of the Remuneration and Nominations Committee.

MR A D MCCALLUM, DIP.AG SCIENCE, FAICD Non-Executive Director

Chairman of Tassal Group Ltd and Non-Executive Director of Incitec-Pivot Ltd. Mr McCallum has over 15 years public companies experience including an ASX 50 company and has served on numerous committees including: Audit, Remuneration & Nomination, and as an Independent Director on Related Parties (Governance) Committees. Mr McCallum is a member of the Remuneration and Nominations Committee.

DR H F OXER, AM, ASM, KSTJ MA (HONS), MB.BCHIR (CANTAB), MRCS.LRCP, DA, FFARCS, FRCA, FFARACS, FANZCA, FACAP, DIPDHM Non-Executive Director

Dr Oxer is a Medical Consultant to MDI and St John Ambulance in Western Australia. Dr Oxer was a long-time member of the State Executive for St John Ambulance (WA) until his retirement in rotation in 2012, and was the previous Medical Director for twenty-six years.

He has taught, lectured and published extensively over the years, both nationally and internationally. Dr Oxer is also a past Chairman of the Australian Resuscitation Council and has a major interest in resuscitation, oxygen therapy, and pain relief.

MR M VAN RYN, B.BUS Non-Executive Director

Mr Van Ryn was a senior executive for 27 years of Bega Cheese Limited, 15 years as CEO and recently International Business Development Manager of that company. Mr Van

Ryn resigned from Bega Cheese Limited in November 2012. He is also Chairman of the pharmaceutical manufacturer and marketer, Probiotec Ltd. Mr Van Ryn has over 35 years experience in the direct management of food companies and has extensive experience in launching and marketing products into international markets. Mr Van Ryn is the Chairman of the Audit & Risk Committee.

The above named directors held office during and since the end of the financial year.

MR M JOHNSTON Non-Executive Director (appointed 5 November 2012)

Mr Johnston is a non-executive director of Enero Group Limited and Probiotec Limited.

For 11 years he was President and Chief Executive Officer of Johnson & Johnson Pacific and an Executive Director of Johnson & Johnson.

Max has also held several prominent industry roles as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the board of ASMI. Max has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe, Africa as well as Asia-Pacific. Mr Johnston is a member of the Audit & Risk Committee.

DR A COULEPIS, B.SC (HONS), PHD, MASM Non-Executive Director (resigned 24 October 2012)

Dr Coulepis is currently the Executive Chairman of Eker Medical Ltd (formerly HealthCare Villages Ltd) and Eker Urgent Care Pty Ltd and is the strategic industry advisor to Box Hill Institute. Dr. Coulepis also is a Director of Melbourne Eastern Healthcare Village (MEHV) Pty Ltd, Eker Logistics Pty Ltd and Kelete Recruitment Pty Ltd as well as the CEO and Managing Director of AGC Consulting Pty Ltd and 3 Point Solutions. Dr Coulepis has over 35 years of experience in the pharmaceutical, healthcare, biotech, life sciences, device and diagnostics industries, and was the founding CEO and Executive Director of AusBiotech, Australia's Biotechnology Industry Organisation, Cellsense Pty Ltd and also Australian Stem Cell HealthCare Pty Ltd.

MR I M C KIRKWOOD, MA HONS (OXON)

FCPA, CA, MAICD

Non-Executive Director (resigned 26 February 2013)

Chartered Accountant, Chairman of Bluechiip Ltd (ASX:BCT) and Avexa Ltd (ASX:AVX) and Non-Executive Director of Vision Eye Institute Ltd (ASX:VEI). Mr Kirkwood has over 35 years financial and operational experience across a range of industries. Mr Kirkwood was the Chairman of the Audit & Risk Committee.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by the directors in the 3 years immediately before the end of the financial year are as follows:

NAME	COMPANY	PERIOD OF DIRECTORSHIP
David Williams	IDT Australia Ltd	Since Dec 2010
	Clever Communications Australia Ltd (Chairman)	2007-2011
Iain Kirkwood	Vision Eye Institute Ltd	Since Nov 2004
	Bluechiip Ltd (Chairman)	Since Nov 2007
	Avexa Ltd (Chairman)	Since Aug 2010
Allan McCallum	Metabolic Pharmaceuticals Ltd	2008-2009
	Tassal Group Ltd (Chairman)	Since Oct 2003
	Incitec-Pivot Ltd	Since Dec 1997
Maurice Van Ryn	Probiotec Ltd (Chairman)	Since Jul 2006
Max Johnston	Probiotec Ltd	Since April 2010
	Enero Group Limited	Since Mar 2011

COMPANY SECRETARY

Mrs W Gouveia, CA (SA)

Chartered Accountant (SA). Mrs Gouveia is also the Group Financial Controller of the company.

PRINCIPAL ACTIVITIES

The company's principal activities during the course of the financial year were the manufacture and distribution of a pharmaceutical drug and medical and veterinary equipment.

REVIEW OF OPERATIONS

2013 was a year of significant investment in the future of our business. The investment in our regulatory, sales,

manufacturing, product development and research teams was significant.

PHARMACEUTICALS

During the year, MDI completed a range of clinical studies designed to improve the clinical and safety data for the use of Pentrox®. MDI has invested more than \$5.3 million since the beginning of 2011 and completed and or finalised the publication of the following clinical studies:

- (i) Phase III Pivotal Study in the United Kingdom;
- (ii) Phase III Bone Marrow Biopsy Clinical Study;
- (iii) 'Thorough QT/QTc' Clinical Study in Australia;
- (iv) A Clinical Study to evaluate the cardiovascular and respiratory effects of inhaled methoxyflurane;
- (v) Colonoscopy Study at Royal Adelaide Hospital; and
- (vi) Other supportive Clinical Studies.

All endpoints and objectives of these studies were met on time and on budget.

Completion of these Clinical Studies provides the company with clinical trial data to include in its Regulatory Dossier. This Dossier will form the basis of marketing applications to sell Pentrox® in Europe and other markets around the world.

MDI expects to finalise and submit the European Marketing Approval ('MA') application sometime before the end of September 2013.

Other clinical trials in Iran and Australia are progressing well and we continue to assess further clinical trials that present significant commercial opportunities and open up new areas of use for Pentrox®.

USA

We have appointed regulatory experts to advise on getting Pentrox® approved for sale in the USA.

JAPAN

Last year MDI signed a Licencing agreement with Nippon Zoki to sell Pentrox® in Japan. Nippon Zoki is currently in negotiation with the Pharmaceuticals and Medical Devices Agency (PMDA) in Japan in regard to the clinical trial data required to register Pentrox® in Japan. The registration process in Japan is expected to take several years but the market opportunity is significant.

EUROPE

In June MDI appointed advisors to find Marketing partners for various European markets. Whilst in the very early stages, this initiative is progressing well.

EASTERN EUROPE AND MIDDLE EAST

Internationally, our Pentrox® business **grew by 53%** and our Eastern European Pentrox® business **grew by 40%**. Our Middle East Pentrox® business **grew 20%** year on year.

NEW ZEALAND

Our New Zealand business **grew 29%**. In May 2013, the use of Pentrox® was approved for reimbursement in New Zealand hospitals. This means Pentrox® can be used in all hospitals in New Zealand and is fully reimbursed by the New Zealand government, which represents a significant opportunity for growth.

AUSTRALIA

Domestically, several parts of the Pentrox® business showed solid growth. Our hospital business **grew 76%**, our Dental business **grew 22%** and our Cosmetics business **grew 11%**. Our Ambulance business decreased due to a change in usage from two customers.

MEDICAL DEVICES

RESPIRATORY

Our Respiratory Device business in Australia **grew 87%** during the year. Globally our Respiratory Device business **grew 28%**. Our *Space Chamber Plus* range of Respiratory Devices continue to win market share and new markets.

USA

During the year we lodged a 510K application to have our range of *Space Chamber Plus* devices approved for sale into the USA. We expect to have approval to sell in the USA before the end of December 2013. Our initial assessment of the USA market is there are approximately 20 million devices sold each year. Our products are amongst the world's best and our ambition is to win significant market share over the next three years.

EUROPE

In April 2013 our *Space Chamber Plus* range of devices was listed for reimbursement by the MHRA in the UK and we are now seeing our first sales in the UK through our UK office.

We expect to increase sales from our European business over the coming years.

NEW ZEALAND

Our New Zealand business continues to perform strongly where we have significant market share.

OTHER

We now have established distribution capabilities in the UK, Canada, Germany, Belgium, Holland, Luxemburg, Switzerland, Hong Kong, Singapore, New Zealand, UAE and Asia. We are expecting to add to this network in the near term.

VET

The overall contribution to profits from our Vet business was equal to FY12. Sales in our Vet business fell 5% mainly due to reduced sales in Europe. We expect our European business to recover during FY14.

RESEARCH AND DEVELOPMENT

MDI announced in July 2012 we had launched a significant research initiative with the CSIRO aimed at improving the productivity and reducing the cost of our pharmaceutical manufacturing business. This initiative is progressing well and we have successfully completed the first phase of this project. If successful this initiative will deliver significant production cost benefits and valuable intellectual property to MDI in the short to medium term.

PRODUCT DEVELOPMENT

Since the beginning of 2011, MDI has made a significant investment building its internal product development capabilities which will continue into FY2014. During the year, MDI developed and/or launched:

Asthma Medical Devices

- *Space Chamber Plus* autoclavable;
- *Space Chamber Plus* Compact antistatic; and
- *Space Chamber Plus* Combo Pack.

Other Medical Devices

- New Face Masks;
- Emergency Equipment Bags;
- Tourniquet;
- Emergency Medical Consumables; and
- Guedel Airways.

FUTURE PRODUCTS

MDI has a number of products in development which it hopes to launch during FY2014 which include:

- a new Pentrox® product;
- a new Vet anaesthetic machine;
- a new electronic Peak Flow Meter;
- a new range of oxygen and nebuliser masks;
- a new range of *Space Chamber Plus* devices; and
- a new range of Oxygen regulators.

OPERATIONS

OPERATING EXPENSES

During the year, the Company invested heavily in our regulatory, product development, sales, marketing and research and development teams.

The investment in clinical studies, research and development and product development has been capitalised to intangible assets where appropriate and were in part funded by borrowings.

Overall the operating costs to sales ratio for the year was 43.2% (37.6% : FY12). We expect improvement in this ratio in FY14.

FINANCIAL POSITION

During the year MDI continued to invest in clinical studies, research and development and product development. This have been capitalised to intangible assets and were in part funded by borrowings as disclosed in note 17.

CASH FLOW

During the period the Company achieved a 4% increase in cash receipts as a result of increased sales. The Company invested its cash reserves as follows:

1. \$2.5 million to further develop intangible assets;
2. \$2.3 million paying dividends; and
3. \$0.5 million to purchase fixed assets.

OUTLOOK/FUTURE DEVELOPMENTS

Our strategy to introduce Pentrox® to new markets revolves around the development and delivery of a world class Regulatory Dossier. We are well on the way to achieving this strategy with our clinical trials in the UK, Australia and elsewhere.

Our focus on improving efficiencies in all aspects of our business whilst growing sales will continue and our project

relating to the manufacturing of methoxyflurane has the potential to transform the cost base of our products over the next few years.

MDI is well placed to deliver future growth through its range of respiratory equipment and devices. We are working towards expanding our existing Australian and international business and opening new markets in Europe and the USA.

CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

SUBSEQUENT EVENTS

The company made an announcement on the Australian Stock Exchange on 13 August, 2013 that Medical Developments International Limited (MDI) has completed the 'Through QT/QTc' Clinical Trial.

The success of MVP's TQT Phase I study is a very significant milestone. The study provides further clinical evidence as to the safety of Pentrox® and is a critical component of the regulatory strategy to introduce Pentrox® into new markets internationally, and into Western Europe in particular.

The Board of Directors declared a Final Dividend of 2 cents per share fully franked in respect of the year ended 30 June 2013.

Other than the above, there has not been any matter or circumstance that has arisen that has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future years.

DIVIDENDS

The Board of Directors declared a Final Dividend of 3 cents per share fully franked in respect of the year ended 30 June 2012 and paid on 10 October 2012.

The Board of Directors declared an Interim Dividend of 3 cents per share fully franked in respect of the half year ended 31 December 2012 and paid on 11 April 2013.

The Board of Directors declared a Final Dividend of 2 cents per share fully franked in respect of the year ended 30 June 2013.

SHARE OPTIONS

The Chief Executive Officer Long Term Incentive Plan (CEO LTIP) was in place for the financial year ended 30 June 2013.

DIRECTORS' REPORT

Further details of the CEO LTIP are contained in the Audited Remuneration Report and note 7 to the financial statements.

At 30 June 2013 all share options had been exercised and no further share options were outstanding.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), and all executive officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 10 board meetings, two audit and risk committee meetings and one remuneration and nominations committee meeting were held.

	BOARD OF DIRECTORS		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATIONS	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
D.J. Williams	10	10	–	–	1	1
A. Coulepis	4	4	–	–	–	–
I.M.C. Kirkwood	7	7	2	2	–	–
A.D. McCallum	10	10	–	–	1	1
H.F. Oxe	10	10	–	–	–	–
M. Van Ryn	10	9	2	2	–	–
M. Johnston	6	6	–	–	–	–

DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares or options in shares as at the date of this report.

	FULLY PAID SHARES
D.J. Williams	30,211,588
A.D. McCallum	470,095
H.F. Oxe	203,804
M. Van Ryn	1,321,029
M. Johnston	20,000

AUDITED REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Medical Developments International Limited's key management personnel for the financial year ended 30 June 2013. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel
- remuneration policy
- relationship between the remuneration policy and company performance
- remuneration of key management personnel
- key terms of employment contracts.

KEY MANAGEMENT PERSONNEL DETAILS

The company's key management personnel consist of the following directors and executives:

The directors of the company during or since the end of the financial year were:

- D.J. Williams (Chairman, Non-executive)
- A. Coulepis (Non-executive)
(resigned 24 October 2012)
- H. F. Oxer (Non-executive)
- I.M.C. Kirkwood (Non-executive)
(resigned 26 February 2013)
- A.D. McCallum (Non-executive)
- M. Van Ryn (Non-executive)
- M. Johnston (Non-executive)
(appointed 5 November 2012)

The company executives during or since the end of the financial year were:

- J. Sharman (Chief Executive Officer)
- U. Charan (Company Secretary)
(resigned 15 October 2012)
- W. Gouveia (Company Secretary)
(appointed 15 October 2012)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

REMUNERATION POLICY

The board continues to set remuneration at a level that will attract directors and executives of high calibre. The two key elements are:

- base salary and fees, which are determined by reference to the market rate based on payments at similar sized companies in the industry; and
- performance incentives, which have two components – short term incentives based on achieving key performance indicators during the year and payable in cash, and long-term incentives payable in equity, the value of which depends on the share price of the company.

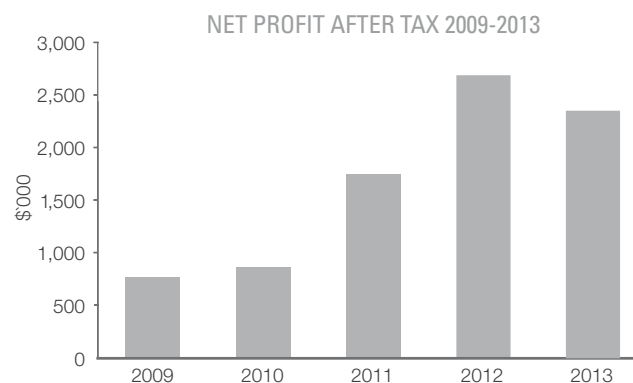
The remuneration and nominations committee, comprised of D.J. Williams and A.D. McCallum, determines the salary package of the CEO of the company and reviews the compensation of the non-executive directors on an annual basis. Changes are approved by the board as a whole.

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The board aims to ensure there is a strong link between company performance and remuneration and believes that the use of performance incentives ensures that company performance is reflected in the quantum of payments made to executives. Performance metrics are selected to ensure that the interests of management are aligned with those of shareholders. For short term incentives, key metrics are NPAT (net profit after tax), used to directly link company earnings and cash bonuses and other operational measures, the achievement of which provides the basis for future growth and profitability.

The table and graph below depict the company's earnings for the current financial year and the previous four financial years, which demonstrate that the company has been consistently profitable.

YEAR	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Revenue	8,727	8,296	10,206	11,313	11,733
NPBT	1,175	1,273	2,495	3,789	3,192
NPAT	810	879	1,743	2,704	2,309



The following table shows the company's share prices for the current financial year and the previous four financial years.

YEAR	2009	2010	2011	2012	2013
Share price - start (\$)	0.34	0.18	0.22	0.40	0.79
Share price - end (\$)	0.18	0.22	0.40	0.79	1.27
Interim Dividend (cps)*	–	–	–	3.00	3.00
Final Dividend (cps)*	–	–	3.00	3.00	2.00
Basic Earnings per Share (cps)*	1.50	1.70	3.40	5.10	4.10
Diluted Earnings per Share (cps)	1.50	1.70	3.40	5.10	4.10

*Franked to 100% at 30% corporate income tax rate.

DIVIDENDS

The directors declared a fully franked final dividend of 3 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2012.

The directors declared a fully franked interim dividend of 3 cents per share to the holders of fully paid ordinary shares in respect the half year ended 31 December 2012.

The Board of Directors declared a Final Dividend of 2 cents per share fully franked in respect of the year ended 30 June 2013.

As a result of the declared dividends, the company issued 769,916 shares (\$1,076,800) under its Dividends Reinvestment Plan and paid \$2,309,000 in dividends.

ELEMENTS OF DIRECTOR AND EXECUTIVE REMUNERATION

Remuneration packages contain the following key elements:

1. Primary benefits – salary/fees and cash bonuses
2. Post-employment benefits – superannuation
3. Equity – rights to shares granted under the Chief Executive Officer Long Term Incentive Plan (CEO LTIP).

The following table discloses the remuneration of the directors of the company in 2013:

2013	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOYMENT	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES \$	BONUS \$	SUPER-ANNUATION \$	OPTIONS & RIGHTS \$	\$
Directors					
D.J. Williams	53,517	–	4,816	–	58,333
A. Coulepis (resigned 24 October 2012)	10,600	–	954	–	11,554
I.M.C. Kirkwood (resigned 26 February 2013)	22,554	–	2,030	–	24,584
A.D. McCallum	34,022	–	3,062	–	37,084
H.F. Oxe ^r *	61,084	–	–	–	61,084
M. Van Ryn	34,022	–	3,062	–	37,084
M. Johnston (appointed 5 November 2012)	22,715	–	2,044	–	24,759
	238,514	–	15,968	–	254,482

* Dr Oxe^r's remuneration includes Directors Fees (\$37,084) & Medical Consultant Fees (\$24,000)

The following table discloses the remuneration of the key executives of the company in 2013:

2013	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOYMENT	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES \$	BONUS \$	SUPER-ANNUATION \$	OPTIONS & RIGHTS \$	\$
Executives					
J. Sharman (Chief Executive Officer)*	271,405	44,758	28,154	6,472	350,789
U. Charan (Company Secretary, resigned 15 October 2012)*	46,083	3,500	3,847	–	53,430
W. Gouveia (Company Secretary, appointed 15 October 2012)	81,713	–	7,354	–	89,067
	399,201	48,258	39,355	6,472	493,286

* Included in Mrs Charan's remuneration are termination benefits of \$15,524 disclosed as part of Salaries & Fees.

The following table discloses the remuneration of the key executives of the company in 2012:

2012	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOYMENT	SHARE- BASED PAYMENTS	TOTAL
	SALARY & FEES \$	BONUS \$	SUPER- ANNUATION \$	OPTIONS & RIGHTS \$	\$
Directors					
D.J. Williams	43,578	–	3,922	–	47,500
A. Coulepis	30,963	–	2,787	–	33,750
I.M.C. Kirkwood	30,963	–	2,787	–	33,750
A.D. McCallum	30,963	–	2,787	–	33,750
H.F. Oxe ^r *	57,750	–	–	–	57,750
M. Van Ryn	30,963	–	2,787	–	33,750
	225,180	–	15,070	–	240,250

* Dr Oxe^r's remuneration includes Directors Fees (\$33,750) & Medical Consultant Fees (\$24,000).

The following table discloses the remuneration of the key executives of the company in 2012:

2012	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOYMENT	SHARE- BASED PAYMENTS	TOTAL
	SALARY & FEES \$	BONUS \$	SUPER- ANNUATION \$	OPTIONS & RIGHTS \$	\$
Executives					
J. Sharman (Chief Executive Officer)*	246,207	40,000	25,086	103,381	414,674
U. Charan (Company Secretary)	101,300	10,000	10,017	–	121,317
	347,507	50,000	35,103	103,381	535,991

* 25% of John Sharman's remuneration relates to Share Based Payments.

No key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

ELEMENTS OF REMUNERATION RELATED TO PERFORMANCE

Fees paid to non-executive directors are not directly tied to performance. Salaries paid to the key executives are also not directly tied to performance. The short term and long-term incentive programmes are directly related to performance, and the conditions and assessment methods are explained below.

SHORT-TERM INCENTIVES

The determination and approval of any potential bonuses is at the discretion of the Board.

During the 2013 financial year, discretionary bonuses totalling \$48,258 (2012: \$50,000) were determined and approved by the Remuneration and Nominations Committee in relation to key management personnel in respect of their performance in the 2012 financial year. These bonuses are reflected in the 2013 remuneration disclosures.

LONG TERM INCENTIVES

On 5 September 2011, the Long-Term Incentive Plan (LTIP) for the CEO (John Sharman) was formalised. Under the agreement, the CEO is provided with 3 separate tranches which if met (target share price and continued employment) would entitle the CEO to a bonus / subscription of shares at particular prices. No further service conditions are attached.

The LTIP allows the CEO to choose between receiving a bonus (tranche 1: \$120,000, tranche 2: \$500,000 and tranche 3: \$1,200,000), to be applied net of taxation through payroll and superannuation by the company to acquire shares in the company or subscribe for 513,577 shares at 25 cents per share at each tranche. Where the CEO receives the bonus amount, this will be applied by

the company to acquire shares at prices not exceeding the relevant share purchase price (tranche 1: 50 cents, tranche 2: \$1.00 and tranche 3: \$1.50) where shares are purchased on the ASX in the ordinary course of trading or issued by the company at the relevant target price. Although the first option involves a monetary bonus, this is used to acquire shares to the value of the bonus. Therefore although the number of shares is variable, the bonus is still settled in shares for the CEO. Therefore neither option is a cash-settled share-based payment.

The following table outlines for each of the tranches the grant date, vesting conditions, fair valuation, and amount expensed during the year.

TRANCHE	GRANT DATE	TARGET SHARE PRICE FOR VESTING BASED ON A CONTINUOUS WEIGHTED AVERAGE FOR 3 MONTHS (COMPANY SHARE PRICE)	FAIR VALUE AT GRANT DATE	EXPENSED DURING THE YEAR	
				2013	2012
1	5 September 2011	\$0.49	\$96,501	–	\$96,501
2	5 September 2011	\$0.97	\$12,721	\$6,119	\$6,602
3	5 September 2011	\$1.46	\$631	\$353	\$278
Total			\$109,853	\$6,472	\$103,381

If the CEO elects to subscribe for new shares, 60 per cent of shares issued will be subject to escrow restrictions for 12 months.

If the CEO's employment is terminated for any reason including resignation, all entitlements under the LTIP will cease, except for shares held in escrow.

There were no share-based payments granted to key management personnel during the current financial year.

During the year, John Sharman exercised options that were granted to him as part of his compensation. Each option converts to one ordinary share of Medical Developments International Limited.

2013				
LTIP	GRANT DATE	NUMBER EXERCISED	EXERCISED DATE	SHARE PRICE AT EXERCISE DATE
				\$
Tranche 2	5 September 2011	513,577	8 November 2012	1.74
Tranche 3	5 September 2011	447,774	25 January 2013	2.02
Total		961,351		

When exercising Tranche 2 the CEO opted to subscribe for shares at 25 cents per share in accordance with the LTIP. This resulted in an increase in ordinary share capital of \$128,394.

When exercising Tranche 3 the CEO opted to receive a bonus of \$1,200,000 was used to subscribe for shares at the target price in accordance with the LTIP. After withholding tax this resulted in a decrease in retained earnings of \$546,250 (withholding tax paid during the year).

2012				
LTIP	GRANT DATE	NUMBER EXERCISED	EXERCISED DATE	SHARE PRICE AT EXERCISE DATE
				\$
Tranche 1	5 September 2011	513,577	3 January 2012	0.57
Total		513,577		

When exercising Tranche 1 the CEO opted to subscribe for shares at 25 cents per share in accordance with the LTIP. This resulted in an increase in ordinary share capital of \$128,394.

No options lapsed during the year and at 30 June 2013 there were no further options exercisable.

CONTRACTS FOR SERVICES

Mr Sharman is employed under an open-ended contract with a notice period of three months. The contract does not provide for any termination payments beyond payment for the notice period and any accrued annual leave.

Mrs Gouveia is employed under an open-ended contract with a notice period of four weeks. The contract does not provide for any termination payments beyond payment for the notice period and any accrued annual leave.

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The non-audit services related to the provision of taxation services. The directors do not believe that the provision of advice of this nature compromises the general principles relating to auditor's independence, as set out by the Institute of Chartered Accountants in Australia.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 8 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

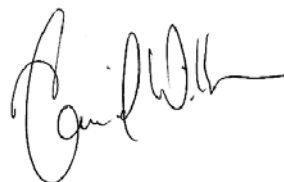
The auditor's independence declaration is included on page 32 of the annual report.

ROUNDING OFF OF AMOUNTS

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors.



David Williams
Chairman

Melbourne, 23 August 2013

The Board of Directors
Medical Developments International Limited
7/56 Smith Road
SPRINGVALE VIC 3171

23 August 2013

Dear Board Members

Medical Developments International Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Medical Developments International Limited.

As lead audit partner for the audit of the financial statements of Medical Developments International Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Medical Developments International Limited

Report on the Financial Report

We have audited the accompanying financial report of Medical Developments International Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 as set out on pages 35 to 68.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply 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. Those 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.

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 company's preparation of the financial report that gives a true and fair view, 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 company'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 opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Medical Development International Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Medical Development International Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.


Report on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 31 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion the Remuneration Report of Medical Development International Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.


DELOITTE TOUCHE TOHMATSU


Chris Biermann
Partner
Chartered Accountants
Melbourne, 23 August 2013

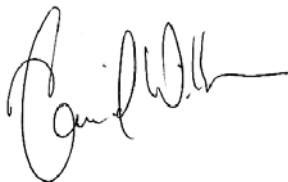
DIRECTORS' DECLARATION

The directors declare that:

- a) 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; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- c) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 of the financial statements; and
- d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'David Williams', with a long horizontal flourish extending to the right.

David Williams
Chairman
Melbourne, 23 August 2013

STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$'000	2012 \$'000
Revenue from sale of goods	4(a)	11,733	11,313
Cost of sales		(3,402)	(3,467)
Gross profit		8,331	7,846
Other income	4(a)	95	353
Distribution expenses		(471)	(449)
Marketing expenses		(1,649)	(1,175)
Occupancy expenses		(334)	(267)
Administration expenses		(1,369)	(1,418)
Regulatory and registration expenses		(668)	(639)
Other expenses		(743)	(462)
Profit before income tax expense	4(b)	3,192	3,789
Income tax expense	5(a)	(883)	(1,085)
Profit for the year		2,309	2,704
Other Comprehensive Income for the year			
Items that may be reclassified subsequently to profit or loss, net of income tax			
Exchange differences on translating foreign operations	22	(13)	–
Total comprehensive income for the year		2,296	2,704
Profit for the year attributable to:			
Owners of the parent		2,309	2,704
Total comprehensive income for the year attributable to:			
Owners of the parent		2,296	2,704
Earnings per Share:			
Basic (cents per share)	24	4.1	5.1
Diluted (cents per share)	24	4.1	5.1

Notes to the financial statements are included on pages 40-68

STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

		30 JUNE 2013	30 JUNE 2012
	NOTE	\$'000	\$'000
Current Assets			
Cash and cash equivalents	30(a)	768	3,483
Trade and other receivables	9	2,342	2,048
Inventories	10	1,398	1,067
Current tax assets	5(d)	297	–
Other	11	118	89
Total Current Assets		4,923	6,687
Non-Current Assets			
Property, plant and equipment	13	1,026	684
Goodwill	14	7,368	7,368
Other intangible assets	15	6,942	4,397
Total Non-Current Assets		15,336	12,449
Total Assets		20,259	19,136
Current Liabilities			
Trade and other payables	16	1,630	1,559
Borrowings	17	1,356	–
Provisions	18	201	235
Current tax liabilities	5(c)	–	339
Total Current Liabilities		3,187	2,133
Non-Current Liabilities			
Deferred tax liabilities	5(e)	861	475
Borrowings	17	88	–
Provisions	19	61	41
Other	20	318	318
Total Non-Current Liabilities		1,328	834
Total Liabilities		4,515	2,967
Net Assets		15,744	16,169
Equity			
Issued capital	21	10,559	9,354
Reserves	22	(13)	103
Retained earnings	23	5,198	6,712
Total Equity		15,744	16,169

Notes to the financial statements are included on pages 40-68

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

FINANCIAL YEAR ENDED 30 JUNE 2013

	ISSUED CAPITAL	RETAINED EARNINGS	EMPLOYEE EQUITY SETTLED BENEFITS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	9,354	6,712	103	-	16,169
Profit for the year	-	2,309	-	-	2,309
Other comprehensive income for the year, net of income tax	-	-	-	(13)	(13)
Total comprehensive income for the year	-	2,309	-	(13)	2,296
Share based payment	-	-	6	-	6
Shares subscribed for under CEO LTIP	128	(546)	-	-	(418)
Dividends reinvested in the form of shares	1,077	(1,077)	-	-	-
Dividends paid	-	(2,309)	-	-	(2,309)
Transfer to retained earnings	-	109	(109)	-	-
Closing balance	10,559	5,198	-	(13)	15,744

FINANCIAL YEAR ENDED 30 JUNE 2012

	ISSUED CAPITAL	RETAINED EARNINGS	EMPLOYEE EQUITY SETTLED BENEFITS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	7,293	6,958	204	-	14,455
Profit for the year	-	2,704	-	-	2,704
Other comprehensive income for the year, net of income tax	-	-	-	-	-
Total comprehensive income for the year	-	2,704	-	-	2,704
Share based payment	-	-	103	-	103
Shares subscribed for under CEO LTIP	128	-	-	-	128
Dividends reinvested in the form of shares	1,933	(1,933)	-	-	-
Dividends paid	-	(1,221)	-	-	(1,221)
Transfer to retained earnings	-	204	(204)	-	-
Closing balance	9,354	6,712	103	-	16,169

Notes to the financial statements are included on pages 40-68

STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers		11,427	10,910
Payments to suppliers and employees		(9,347)	(7,290)
Receipts from government grants		–	17
Other income		42	164
Interest paid		(13)	–
Income tax paid		(1,132)	(763)
Net cash generated by operating activities	30(b)	977	3,038
Cash flows from investing activities			
Interest received		78	160
Payments for plant and equipment		(542)	(121)
Payments for other intangible assets		(2,487)	(2,053)
Net cash used in investing activities		(2,951)	(2,014)
Cash flows from financing activities			
Cash received from share issue		128	128
Dividends paid	23	(2,309)	(1,221)
Proceeds from borrowings	17	1,444	–
Net cash used in financing activities		(737)	(1,093)
Net decrease in cash and cash equivalents		(2,711)	(69)
Cash and cash equivalents at the beginning of the financial year		3,483	3,541
Effects of exchange rate changes on the balance of cash held in foreign currencies		(4)	11
Cash and cash equivalents at the end of the financial year	30(a)	768	3,483

Notes to the financial statements are included on pages 40-68

NOTES TO THE FINANCIAL STATEMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 23 August 2013.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise noted.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

(c) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of annual leave and long service leave which are not expected to be settled within 12 months are measured using an estimate of the present value of the future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(d) Financial assets

LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment.

Interest income is recognised by applying the effective interest rate.

IMPAIRMENT OF FINANCIAL ASSETS

Financial Assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

(e) Financial instruments issued by the company

DEBT AND EQUITY INSTRUMENTS

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

TRANSACTION COSTS ON THE ISSUE OF EQUITY INSTRUMENTS

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which they relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and would not have been incurred had those instruments not been issued.

INTEREST AND DIVIDENDS

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(f) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks below for hedging accounting policies; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(h) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is recognised as an asset and not amortised but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income and is not subsequently reversed. Refer also to note 1(j).

(i) Government grants

Government grants are assistance by the government in the form of transfers of resources to the company in return for past or future compliance with certain conditions relating to the operating activities of the company. Government grants include government assistance where there are no conditions specifically relating to the operating activities

of the company other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised as income of the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

(j) Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss (other than Goodwill) subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent

that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Income tax

CURRENT TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Where the Group qualifies for the research and development tax incentive refund (at 45%), this reduces the current tax expense recognised in profit and loss for the period.

DEFERRED TAX

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which

the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax is recognised as an expense or income in the Consolidated Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(l) Intangible assets

PATENTS, TRADEMARKS AND LICENSES

Patents, trademarks and licenses are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives of 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets in respect of development costs are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their estimated useful life of 5 years commencing from the date that revenue results.

DEFERRED REGISTRATION COSTS

Items of expenditure on registrations are deferred to the extent that such costs can be measured reliably, future economic benefits are attributable to the expenditure, and it is probable that such future economic benefits will eventuate.

Any deferred registration costs are amortised over a period of 5 - 20 years in which the corresponding benefits are expected to arise, commencing from commercial sales to any of the countries for which the registration costs contributed to a successful registration.

The unamortised balance of registration costs deferred in previous periods is reviewed regularly at each reporting date, to ensure the criteria for deferral continue to be met. Where such costs are no longer recoverable, they are written off as an expense in the Statement of Comprehensive Income.

(m) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The company currently does not have any finance leases. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Financial Liabilities

Trade payables and other accounts payable are classified as financial liabilities and are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services. Financial liabilities are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

(p) Plant and equipment

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of the acquisition.

DEPRECIATION

Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	5 years
Plant and equipment	4 - 10 years

(q) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

DIVIDENDS

A liability is recognised for dividends when they have been declared, determined or publicly recommended by the directors on or before the reporting date.

(r) Revenue recognition

SALE OF GOODS

Revenue from the sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods.

INTEREST INCOME

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(s) Share based payments

Equity-settled share-based payments granted are measured at fair value at the date of grant. Fair value is measured by use of a Monte Carlo valuation model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of options that will eventually vest.

(t) Application of new and revised Accounting Standards

STANDARDS AND INTERPRETATIONS AFFECTING AMOUNTS REPORTED IN THE CURRENT PERIOD (AND/OR PRIOR PERIODS)

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

STANDARDS AFFECTING PRESENTATION AND DISCLOSURE

<p>Amendments to AASB 101 'Presentation of Financial Statements'</p>	<p>The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income') introduces new terminology for the Statement of Comprehensive Income and Income Statement. Under the amendments to AASB 101, the Statement of Comprehensive Income is renamed as a Statement of Profit or Loss and Other Comprehensive Income and the Income Statement is renamed as a Statement of Profit or Loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.</p>
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1. STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Company does not expect that upon adoption that there will be any significant impact on the financial statements.

STANDARDS/INTERPRETATIONS	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014

STANDARDS/INTERPRETATIONS	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill at the balance sheet date was \$7,368K (2012: \$7,368K). Details of the impairment calculation are provided in note 14.

AMORTISATION OF DEFERRED REGISTRATION COSTS

During the year, management reviewed the unamortised balance of registration costs deferred in previous period. Consideration was given to the cost for each classification of deferred costs to determine whether the corresponding benefits are likely to arise. Developments continue on the unamortised categories of registration costs deferred in prior periods, and once revenue has been generated in these categories, the balances will be amortised.

At the reporting date there was no indication that any of the internally generated intangible assets, relating to registration costs, were impaired. This situation will be closely monitored, and amortisation will be recognised in future periods as corresponding economic benefits flow. Details of the deferred registration costs are provided in note 15.

3. SEGMENT INFORMATION

PRODUCTS AND SERVICES WITHIN EACH BUSINESS SEGMENT

For management purposes, the company is organised into three business units – Pharmaceuticals, Medical Devices and Veterinary products. These units are the basis on which the company reports its primary segment information. The principal products and services of each of these divisions are as follows:

- Pharmaceuticals – the sale of Pentrox® primarily within Australia and New Zealand, but with some sales in Eastern Europe, the Middle East, and South America.
- Medical Devices – the sale of medical devices, particularly the Space Chamber and Breath-Alert Peak-Flow meters, primarily within Australia and New Zealand, but with some sales in Asia, Europe, the Middle East and North America.
- Veterinary Products – the sale of veterinary products within Australia, Europe, and the United States.

SEGMENT REVENUES AND RESULTS

	PHARMACEUTICALS		MEDICAL EQUIPMENT		VETERINARY EQUIPMENT		UNALLOCATED		TOTAL	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Revenues:										
External sales	6,290	6,646	5,105	4,310	338	357	–	–	11,733	11,313
Other income	–	–	–	–	–	–	41	181	41	181
Total revenue									11,774	11,494
Results:										
Segment results	2,616	2,896	1,445	1,306	105	108	–	–	4,166	4,310
Unallocated	–	–	–	–	–	–	(781)	(446)	(781)	(446)
Profit before interest, income tax depreciation & amortisation	2,616	2,896	1,445	1,306	105	108	(781)	(446)	3,385	3,864
Depreciation & Amortisation	(149)	(164)	(8)	(19)	(3)	(8)	(74)	(56)	(234)	(247)
Profit before interest and tax	2,467	2,732	1,437	1,287	102	100	(855)	(502)	3,151	3,617
Net Interest							41	172	41	172
Profit before income tax expense							(814)	(330)	3,192	3,789
Income tax expense							(883)	(1,085)	(883)	(1,085)
Net profit for the period from continuing operations							(1,697)	(1,415)	2,309	2,704
Assets and Liabilities:										
Assets	13,145	10,219	4,792	4,287	807	789	1,515	3,841	20,259	19,136
Liabilities	–	–	–	–	–	–	4,515	2,967	4,515	2,967
Other Segment Information:										
Acquisition of segment assets	2,802	2,109	77	17	33	7	209	41	3,121	2,174

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Liabilities are not disclosed per segment as it is not possible to track these on a segment basis.

REVENUE FROM MAJOR PRODUCTS AND SERVICES

Revenue from major products and services has not been presented as it is not considered practicable to do so.

GEOGRAPHICAL INFORMATION

The Group operates in three principal geographical areas: Australia (country of domicile); New Zealand; and 'International' comprising Eastern Europe, Germany, Canada, Middle East and South America.

The Group's revenue from continuing operations from external customers and information about its non-current assets by location of assets are detailed below:

GEOGRAPHICAL INFORMATION	REVENUE FROM EXTERNAL CUSTOMERS		REVENUE FROM EXTERNAL CUSTOMERS	
	2013 \$'000	%	2012 \$'000	%
Australia	8,678	74.0	8,068	74.0
New Zealand	1,575	13.4	1,664	17.9
International	1,480	12.6	1,581	8.1
	11,733	100.0	11,313	100.0

The Group's non-current assets by location are detailed below:

NON-CURRENT SEGMENT ASSETS	AUSTRALIA \$'000	OVERSEAS \$'000	TOTAL \$'000
Leasehold improvements at cost	515	–	515
Plant and equipment at cost	2,438	161	2,599
Goodwill at gross carrying amount	7,368	–	7,368
Other intangible assets at cost	7,333	–	7,333
	17,654	161	17,815

INFORMATION ABOUT MAJOR CUSTOMERS

The Group's three largest customers who contributed 10% or more to the Group's revenue from external sales for both 2013 and 2012 are below:

TOP CUSTOMERS WITH > 10% SALES	2013 \$'000	% TOTAL SALES	2012 \$'000	% TOTAL SALES	SEGMENT
Customer A	1,724	14.7	1,412	12.0	Pharmaceutical/Medical Equipment
Customer B	1,293	11.0	1,399	11.9	Medical Equipment
Customer C	1,086	9.3	501	4.3	Pharmaceutical/Medical Equipment
	4,103		3,312		

4. PROFIT FOR THE YEAR

	2013	2012
	\$'000	\$'000
(a) Revenue and other income		
Revenue from sale of goods	11,733	11,313
Other operating lease rental income	8	7
Interest revenue - bank deposits	54	172
Other Income	33	157
Government grant income	-	17
	11,828	11,666
(b) Expense items included in profit and loss		
Profit before income tax has been arrived at after charging the following expenses:		
Depreciation of non-current assets	(200)	(157)
Amortisation of non-current assets	(34)	(90)
Research & development costs immediately expensed	(41)	(75)
Operating lease rental expenses - minimum lease payments	(145)	(124)
Interest expense	(13)	-
Employee benefit expense:		
Short-term employee benefits	(2,304)	(1,934)
Superannuation contributions	(288)	(265)
Equity settled share based payments	(6)	(103)
	(2,598)	(2,302)

5. INCOME TAXES

	2013	2012
	\$'000	\$'000
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Current tax expense	456	745
Adjustments recognised in the current year in relation to the current tax of prior year	41	(73)
Deferred tax expense in relation to the deferred tax of prior year	(43)	–
Deferred tax expense relating to the origination and reversal of temporary differences	429	413
Total tax expense	883	1,085
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit from operations	3,192	3,789
Income tax calculated at 30%	958	1,137
Share based payment expense	2	31
Research & development expense	(110)	(73)
Effect of expenses that are not deductible in determining taxable profit	1	2
Adjustments recognised in the current year in relation to the current tax of prior year	41	(73)
Effect of profit or loss items eliminated on consolidation	19	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	15	–
Deferred tax expense in relation to the deferred tax of prior year	(43)	61
Income tax expense recognised in the Statement of Comprehensive Income	883	1,085
The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.		
(b) Income tax recognised directly in equity		
No current and deferred tax amounts have been charged directly to equity during the period (2012: \$nil)		
(c) Current tax liabilities		
Income tax payable	–	(339)
(d) Current tax assets		
Income tax receivable	297	–
(e) Deferred tax liabilities		
Temporary differences	(861)	(475)

5. INCOME TAXES (CONTINUED)

Taxable/Deductible temporary differences arise from the following:

2013	OPENING BALANCE \$'000	CHARGED TO INCOME \$'000	CLOSING BALANCE \$'000
Deferred tax assets/(liabilities):			
Accrued expenses	18	3	21
Deferred grant revenue	95	–	95
Other Assets	–	(3)	(3)
Other Intangibles	(648)	(525)	(1,173)
Property, Plant & Equipment	23	0	23
Provisions	83	11	94
Tax losses	–	61	61
Unrealised foreign exchange losses	(46)	67	21
	(475)	(386)	(861)

2012	OPENING BALANCE \$'000	CHARGED TO INCOME \$'000	CLOSING BALANCE \$'000
Deferred tax assets/(liabilities):			
Accrued expenses	128	(110)	18
Deferred grant revenue	95	–	95
Other Intangibles	(376)	(272)	(648)
Property, Plant & Equipment	–	23	23
Provisions	72	11	83
Unrealised foreign exchange losses	19	(65)	(46)
	(62)	(413)	(475)

6. KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation of the key management personnel of the company and the Group is set out below:

	2013	2012
	\$'000	\$'000
Short-term employee benefits	670	623
Post employment benefits	55	50
Share based payments	6	103
Termination benefits	16	-
	<u>747</u>	<u>776</u>

7. SHARE-BASED PAYMENTS

(A) EMPLOYEE SHARE OPTION PLAN

On 5 September 2011 the Long-Term Incentive Plan (LTIP) for the CEO (John Sharman) was formalised. Under the agreement, the CEO is provided with 3 separate tranches which if met (target share price and continued employment) would entitle the CEO to a bonus / subscription of shares at particular prices. No further service conditions are attached.

The LTIP allows the CEO to choose between receiving a bonus (tranche 1: \$120,000, tranche 2: \$500,000 and tranche 3: \$1,200,000), to be applied net of taxation through payroll and superannuation by the company to acquire shares in the company or subscribe for 513,577 shares at 25 cents per share at each tranche. Where the CEO receives the bonus amount, this will be applied by the company to acquire shares at prices not exceeding the relevant share purchase price (tranche 1: 50 cents, tranche 2: \$1.00 and tranche 3: \$1.50) where shares are purchased on the ASX in the ordinary course of trading or issued by the company at the relevant target price. Although the first option involves a monetary bonus, this is used to acquire shares to the value of the bonus. Therefore although the number of shares is variable, the bonus is still settled in shares for the CEO. Therefore neither option is a cash-settled share-based payment.

The following table outlines for each of the tranches the grant date, vesting conditions, fair valuation, and amount expensed during the year.

TRANCHE	GRANT DATE	TARGET SHARE PRICE FOR VESTING BASED ON A CONTINUOUS WEIGHTED AVERAGE FOR 3 MONTHS (COMPANY SHARE PRICE)	FAIR VALUE AT GRANT DATE	EXPENSED DURING THE YEAR	
				2013	2012
1	5 September 2011	\$0.49	\$96,501	-	\$96,501
2	5 September 2011	\$0.97	\$12,721	\$6,119	\$6,602
3	5 September 2011	\$1.46	\$631	\$353	\$278
Total			\$109,853	\$6,472	\$103,381

NOTES TO THE
FINANCIAL
STATEMENT**(B) FAIR VALUE OF SHARE OPTIONS GRANTED IN THE YEAR**

There were no options granted in the year ended 30 June 2013.

The three tranches granted under the LTIP were granted in the year ended 30 June 2012. The fair value of the three tranches was based on the Monte Carlo method. The valuations were based on key assumptions one of which being the length the CEO is likely to stay within the company from the period of the grant date. Entitlements under the LTIP only cease on termination of the CEO's employment.

The inputs to the model were as follows:

	TRANCHE 1	TRANCHE 2	TRANCHE 3
Target Price	\$0.49	\$0.97	\$1.46
Strike Price	\$0.25	\$0.25	\$0.25
Grant Date	5 September 2011	5 September 2011	5 September 2011
Volatility (Daily)	1.52%	1.52%	1.52%
Dividend Yield	8.57%	8.57%	8.57%
Risk Free Rate	4.32%	4.32%	4.32%

(C) MOVEMENTS IN SHARE OPTIONS DURING THE YEAR

In the year ended 30 June 2013, Tranches 2 and 3 were vested and exercised under the LTIP (2012: Tranche 1 was vested and exercised).

(D) SHARE OPTIONS EXERCISED DURING THE YEAR

The following options exercised during the year:

2013 LTIP	GRANT DATE	NUMBER EXERCISED	EXERCISED DATE	SHARE PRICE AT EXERCISE DATE \$
Tranche 2	5 September 2011	513,577	8 November 2012	1.74
Tranche 3	5 September 2011	447,774	25 January 2013	2.02
		<u>961,351</u>		

When exercising Tranche 2 the CEO opted to subscribe for shares at 25 cents per share in accordance with the LTIP. This resulted in an increase in ordinary share capital of \$128,394.

When exercising Tranche 3 the CEO opted to receive a bonus of \$1,200,000 was used to subscribe for shares at the target price in accordance with the LTIP. After withholding tax this resulted in a decrease in retained earnings of \$546,250 (withholding tax paid during the year).

2012 LTIP	GRANT DATE	NUMBER EXERCISED	EXERCISED DATE	SHARE PRICE AT EXERCISE DATE \$
Tranche 1	5 September 2011	513,577	3 January 2012	0.57
		<u>513,577</u>		

8. REMUNERATION OF AUDITORS

	2013	2012
	\$	\$
Auditor of the parent entity		
Audit or review of the financial report	71,955	69,500
Other services	14,000	15,813
	<u>85,955</u>	<u>85,313</u>

The auditor of the entity is Deloitte Touche Tohmatsu.

The other services relate to taxation services.

9. CURRENT RECEIVABLES

	2013	2012
	\$'000	\$'000
Trade receivables	2,230	1,940
Allowance for doubtful debts	–	–
Other debtors	6	43
GST recoverable	106	65
	<u>2,342</u>	<u>2,048</u>

The average credit period on sales of goods to domestic customers is 30 days; international customers 60 days.

No interest is charged on trade receivables.

The Group has a credit policy in place to reduce its credit risks to significant debtors. Of the trade receivables balance at the end of the year, \$1,013,000 (2012: \$633,000) is due from the Group's three largest customers (Refer to note 3).

Included in the trade receivable balance are debtors with a carrying amount of \$274,000 (2012: \$95,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

AGEING OF PAST DUE BUT NOT IMPAIRED

	2013	2012
	\$'000	\$'000
60 - 90 days	31	25
90 - 120 days	243	70
Total	<u>274</u>	<u>95</u>

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

10. CURRENT INVENTORIES

	2013	2012
	\$'000	\$'000
Raw materials:		
At cost	603	612
Work in progress:		
At cost	318	226
Finished goods:		
At cost	477	229
	<u>1,398</u>	<u>1,067</u>

11. OTHER CURRENT ASSETS

	2013	2012
	\$'000	\$'000
Prepayments	118	89

12. SUBSIDIARIES

Details of the Group's subsidiaries at the end of the reporting period are as follows.

NAME OF SUBSIDIARY	PRINCIPLE ACTIVITY	PLACE OF INCORPORATION AND OPERATION	PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY THE GROUP	
			2013	2012
Medical Developments UK Limited	Distribution of pharmaceutical drug and medical and veterinary equipment	United Kingdom	100%	100%

13. PROPERTY, PLANT & EQUIPMENT

	LEASEHOLD IMPROVEMENTS AT COST	PLANT AND EQUIPMENT AT COST	TOTAL
	\$'000	\$'000	\$'000
Gross carrying amount			
Balance at 1 July 2011	258	2,195	2,453
Additions	27	94	121
Balance at 1 July 2012	285	2,289	2,574
Additions	230	312	542
Write off of PP&E	–	(1)	(1)
Balance at 30 June 2013	515	2,600	3,115
Accumulated depreciation			
Balance at 1 July 2011	(126)	(1,607)	(1,733)
Depreciation expense	(33)	(124)	(157)
Balance at 1 July 2012	(159)	(1,731)	(1,890)
Depreciation expense	(59)	(141)	(200)
Write off of PP&E	–	1	1
Balance at 30 June 2013	(218)	(1,871)	(2,089)
Net book value			
As at 30 June 2012	126	558	684
As at 30 June 2013	297	729	1,026

Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying value of other assets during the year:

	2013	2012
	\$'000	\$'000
Property, Plant & Equipment	(200)	(157)

14. GOODWILL

	2013	2012
	\$'000	\$'000
Gross carrying amount		
Balance at beginning of financial year	7,368	7,368
Balance at end of financial year	7,368	7,368
Net book value		
Balance at beginning of financial year	7,368	7,368
Balance at end of financial year	7,368	7,368

During the year, the company assessed the recoverable amount of goodwill and determined that there was no impairment (2012: \$nil).

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

Goodwill has been allocated for impairment testing purposes to three individual cash-generating units: pharmaceutical business, medical devices business and veterinary equipment business. The carrying amount of goodwill allocated to cash-generating units that are significant individually is as follows:

	2013	2012
	\$'000	\$'000
Pharmaceuticals	3,808	3,808
Medical devices	2,979	2,979
Veterinary equipment	581	581
	7,368	7,368

The recoverable amount of all three cash-generating units is based on a value in use calculation for each unit which uses cash flow projections based on a five-year projection period and terminal value. The Board of Directors approved financial budget for the following year is used to determine the cash flows for year 1. This assumes growth rates of 7.5%, 18.8% and 3.7% respectively with growth rates for years 2-5 of:

Pharmaceuticals:	7.6% based on expansion into new markets
Medical Devices:	18.8% based on expansion into new markets
Veterinary equipment:	0%

A terminal value after 5 years based on a long term growth rate of 2.5%, and a pre-tax discount rate of 13.62% per annum (2012: 10.85% per annum) have been used to calculate the carrying value of the intangible assets.

The key assumptions used in the value in use calculations for all units are:

- Sales growth – described above
- Gross margin – it is assumed that gross margin of the Pharmaceutical & Medical Devices segments will continue to improve following investment and activities aimed at improvement in the manufacturing process and procedures.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount for each of the three units is based would not cause the carrying amounts to exceed their recoverable amounts.

15. OTHER INTANGIBLE ASSETS

2013	DEVELOPMENT	PATENTS & TRADEMARKS	DEFERRED REGISTRATION COSTS	TOTAL
	\$'000	\$'000	\$'000	\$'000
Gross carrying amount				
Balance at 1 July 2011	–	259	2,500	2,759
Additions	483	49	1,521	2,053
Write off of Intangibles	–	(17)	(41)	(58)
Balance at 1 July 2012	483	291	3,980	4,754
Additions	415	74	2,090	2,579
Balance at 30 June 2013	898	365	6,070	7,333
Accumulated amortisation				
Balance at 1 July 2011	–	(57)	(268)	(325)
Write back amortisation	–	17	41	58
Amortisation expense	–	(33)	(57)	(90)
Balance at 1 July 2012	–	(73)	(284)	(357)
Amortisation expense	–	(31)	(3)	(34)
Balance at 30 June 2013	–	(104)	(287)	(391)
Net book value				
As at 30 June 2012	483	218	3,696	4,397
As at 30 June 2013	898	261	5,783	6,942

The amortisation charge for the year of \$34,000 (2012: \$90,000) has been included in administration expenses. For an explanation of amortisation periods refer note 1(I).

16. CURRENT TRADE AND
OTHER PAYABLES

	2013	2012
	\$'000	\$'000
Trade payables (i)	1,238	999
Accrued expenses	336	496
Employee benefits payable	1	18
PAYG withholding tax payable	55	46
	1,630	1,559

(i) The average credit period on purchase of goods is 30 days. No interest is charged on trade payables. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. BORROWINGS

	2013	2012
	\$'000	\$'000
Secured - at amortised cost		
Bank loan (i)	69	–
Bank Bill (ii)	1,200	–
Other (iii)	175	–
	1,444	–
Current	1,356	–
Non-current	88	–
	1,444	–

SUMMARY OF BORROWING ARRANGEMENTS

- (i) On 1 March 2013 the Group entered into a commercial loan agreement to fund the purchase of a new bottling station. As at 30 June 2013, \$69,000 has been drawn upon and \$103,000 remains unused. When the final draw down is made, the commercial loan agreement will be converted into a Hire Purchase Agreement. The current weighted-average effective interest rate on the loan is 7.5% p.a. The commercial loan agreement is secured by a registered charge over the equipment financed.
- (ii) The Bank Bill Facility with a variable interest rate and 90 day roll over period was taken out during the year. As at 30 June 2013, \$1,200,000 has been drawn upon and \$1,350,000 remains unused. The current weighted average effective interest rate on the bills is 5.9% p.a. The Bank Bill is secured by a registered charge over the Group's assets.
- (iii) On 29 June 2012, the group entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation ('CSIRO') to fund the development of a new production process for the pain relieving ingredient used in Pentrox®. Funding is receivable at the commencement of each of three stages of development and is payable over a three year term upon the completion of the relevant stage. As at 30 June 2013, the stage 1a is complete and stage 1b has commenced. Should MDI default on the loan, CSIRO has the option to convert the debt into shares in MDI at fair market value. This funding is interest- free until the first anniversary of the completion of stages 1a and 2 and is then calculated at the Westpac Bank Lending Rate at the date the relevant note was issued, plus 2%. The funding for stage 2 is interest free.
- (iv) The Group has an overdraft facility of \$200,000. As at 30 June 2013, this remains unused.

18. CURRENT PROVISIONS

	2013	2012
	\$'000	\$'000
Employee benefits	201	235

19. NON-CURRENT PROVISIONS

	2013	2012
	\$'000	\$'000
Employee benefits	61	41

20. OTHER NON-CURRENT LIABILITIES

	2013	2012
	\$'000	\$'000
Unearned government grant income	318	318

Unearned government grant income represents funds received through the Commercial Ready Programme from Federal Government.

21. ISSUED CAPITAL

	2013	2013	2012	2012
	No.	\$'000	No.	\$'000
Fully paid ordinary shares				
Balance at beginning of financial year	55,689,436	9,354	51,357,651	7,293
Shares Issued - CEO LTIP	961,351	128	513,577	128
Shares Issued - Dividends Reinvestment Plan	769,916	1,077	3,818,208	1,933
Balance at end of financial year	57,420,703	10,559	55,689,436	9,354

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

SHARE OPTIONS

The Chief Executive Officer Long Term Incentive Plan (CEO LTIP) was in place for the financial year ending 30 June 2013.

Further details of the CEO LTIP are contained in note 7 to the financial statements.

22. RESERVES

	2013	2012
	\$'000	\$'000
(a) Employee equity-settled benefits reserve		
Balance at beginning of year	103	204
Transfer to retained earnings	(109)	(204)
Share-based payment recognised	6	103
Balance at end of year	–	103

The above equity-settled employee benefits reserve relates to share options granted by the Company to the CEO, John Sharman under its employee share option plan. Items included in equity-settled employees benefit reserve will not be reclassified subsequently to profit or loss. Further information about these share-based payments are set out in note 7.

	2013	2012
	\$'000	\$'000
(b) Foreign currency translation reserve		
Balance at beginning of year	–	–
Exchange differences arising on translating the foreign operations	(13)	–
Balance at end of year	(13)	–

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation.

23. RETAINED EARNINGS

	2013 \$'000	2012 \$'000
Balance at beginning of financial year	6,712	6,958
Transfer from Reserves	109	204
Dividends paid	(2,309)	(1,221)
Dividends Reinvested	(1,077)	(1,933)
Shares subscribed for under CEO LTIP	(546)	–
Net profit attributable to members	2,309	2,704
Balance at end of financial year	5,198	6,712

24. EARNINGS PER SHARE

	2013 CENTS PER SHARE	2012 CENTS PER SHARE
Basic earnings per share	4.1	5.1
Diluted earnings per share	4.1	5.1

BASIC EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2013 \$'000	2012 \$'000
Earnings	2,309	2,704

	2013 No.	2012 No.
Weighted average number of ordinary shares	56,636,759	53,427,381

The shares issued to the CEO under the CEO LTIP have been included in the weighted average number of ordinary shares for the purposes of calculating basic EPS.

DILUTED EARNINGS PER SHARE

There is no difference from basic EPS in the calculation of diluted EPS.

NOTES TO THE
FINANCIAL
STATEMENT**25. DIVIDENDS**

The directors declared a fully franked final dividend of 3 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2012.

The directors declared a fully franked interim dividend of 3 cents per share to the holders of fully paid ordinary shares in respect of the half year ended 31 December 2012.

The Board of Directors declared a Final Dividend of 2 cents per share fully franked in respect of the year ended 30 June 2013.

All dividends are accrued for when declared.

	2013		2012	
	CENTS PER SHARE	\$'000	CENTS PER SHARE	\$'000
Recognised amounts				
<i>Fully paid ordinary shares</i>				
Final dividend franked to 30%	3.0	1,671	3.0	1,541
Interim dividend franked to 30%	3.0	1,715	3.0	1,615
	6.0	3,386	6.0	3,156
Unrecognised amounts				
<i>Fully paid ordinary shares</i>				
Final dividend franked to 30%	2.0	1,148	3.0	1,671
		1,148		1,671

	2013	2012
	\$'000	\$'000
Adjusted franking account balance	1,496	1,649

26. OPERATING LEASES

Operating leases relate to factory leases with remaining lease terms of up to 30 months. The company does not have the option to purchase the leased asset at the expiry of the lease period.

	2013	2012
	\$'000	\$'000
Non cancellable operating lease payments:		
Not longer than 1 year	181	66
Longer than 1 year and not longer than 5 years	262	146
	443	212

27. COMMITMENTS FOR EXPENDITURE**(A) CAPITAL EXPENDITURE COMMITMENTS**

Capital expenditure commitments relate to the purchase of a new bottling station (\$103,000) and the ongoing project with CSIRO (\$362,000). Further details are disclosed in note 17 to the financial statements.

28. RELATED PARTY DISCLOSURES**(A) KEY MANAGEMENT PERSONNEL COMPENSATION**

Details of key management personnel compensation are disclosed in note 6 to the financial statements.

(B) KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS – FULLY PAID ORDINARY SHARES

2013	BALANCE AT 30 JUNE 2012	ISSUED DURING THE YEAR	NET OTHER CHANGE	BALANCE AT 30 JUNE 2013
	No.	No.	No.	No.
D.J. Williams	29,798,964	–	412,624	30,211,588
A. Coulepis	474,424	–	(474,424)	–
I.M.C. Kirkwood	112,270	–	(112,270)	–
A.D. McCallum	470,095	–	–	470,095
H.F. Oxeer	195,463	–	8,341	203,804
M. Van Ryn	1,318,282	–	2,747	1,321,029
M. Johnston	–	–	20,000	20,000
J. Sharman*	513,577	961,351	(705,698)	769,230
	32,883,075	961,351	(848,680)	32,995,746

* The 961,351 shares issued during the year were as a result of the CEO exercising his rights under a Long Term Incentive Plan.
For further details refer to note 7.

2012	BALANCE AT 30 JUNE 2011	ISSUED DURING THE YEAR	NET OTHER CHANGE	BALANCE AT 30 JUNE 2012
	No.	No.	No.	No.
D.J. Williams	25,513,321	–	4,285,643	29,798,964
A. Coulepis	385,000	–	89,424	474,424
I.M.C. Kirkwood	100,000	–	12,270	112,270
A.D. McCallum	470,095	–	–	470,095
H.F. Oxeer	140,000	–	55,463	195,463
M. Van Ryn	1,203,898	–	114,384	1,318,282
J. Sharman*	–	513,577	–	513,577
	27,812,314	513,577	4,557,184	32,883,075

* The 513,577 shares issued during the year were as a result of the CEO exercising his rights under a Long Term Incentive Plan.
For further details refer to note 7.

**(C) KEY MANAGEMENT PERSONNEL EQUITY
HOLDINGS – OPTIONS**

Details of the CEO LTIP are contained in note 7 to the financial statements.

29. SUBSEQUENT EVENTS

The company made an announcement to the Australian Stock Exchange on 13 August 2013 that the company had completed the 'Through QT/QTc' Clinical Trial.

The success of MDI's TQT Phase I study is a very significant milestone. The study provides further clinical evidence as to

the safety of Pentrox® and is a critical component of the regulatory strategy to introduce Pentrox® into new markets internationally, and into Western Europe in particular.

The Board of Directors declared a Final Dividend of 2 cents per share fully franked in respect of the year ended 30 June 2013.

Other than the above, there has not been any matter or circumstance that has arisen that has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future years.

30. NOTES TO THE STATEMENT OF CASH FLOWS

	2013 \$'000	2012 \$'000
(a) Reconciliation of cash and cash equivalents		
For the purposes of the Consolidated Statement of Cash Flows, cash includes cash on hand and in banks. Cash at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to the related item in the balance sheet as follows:		
Cash and cash equivalents	768	3,483
	<hr/> 768	<hr/> 3,483
(b) Reconciliation of profit for the period to net cash flows from operating activities		
Profit for the period	2,309	2,704
Interest received	(78)	(160)
Depreciation and amortisation of non-current assets	234	247
Net foreign exchange loss/(gain)	(8)	(12)
Equity settled share based payment expense	6	103
Taxes paid in equity settled share based payment	(546)	–
Decrease in current tax liabilities	(636)	(90)
Increase in deferred tax liability	386	413
<i>Movements in working capital</i>		
Increase in assets:		
Current receivables	(294)	(415)
Current inventories	(331)	(127)
Other current assets	(29)	(11)
Increase/(decrease) in liabilities:		
Current payables	(22)	350
Current provisions	(34)	26
Non-current provisions	20	10
Net cash from operating activities	<hr/> 977	<hr/> 3,038
(c) Financing facilities		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount unused	200	150
	<hr/> 200	<hr/> 150
Bank bill facility with a 90 day roll over period:		
Amount used	1,200	–
Amount unused	1,350	750
	<hr/> 2,550	<hr/> 750
Details of further financing facilities are disclosed in Note 17.		
(d) Non-cash transactions		
During the current year, the Group continued to operate the Dividend Reinvestment Plan.		
The total amount of dividend re-invested was \$1,077,000 (2012: \$1,933,000).		

31. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The capital structure of the Group consists of net debt (borrowings as detailed in note 17) and equity of the Group (comprising issues capital, reserves, retained earnings, and cash and cash equivalents as detailed in notes 21, 22, 23, and 30(a), respectively).

The Group's Audit and Risk Committee reviews the capital structure of the Group on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The gearing ratio at 30 June 2013 is 4% (see below).

	2013 \$'000	2012 \$'000
Debt (i)	1,444	0
Cash and bank balances	(768)	(3,483)
Net debt / (cash)	676	(3,483)
Equity (ii)	15,744	16,169
Net debt to equity ratio	4%	-22%

(i) Debt is defined as long-term and short-term borrowings as described in note 17.

(ii) Equity includes all capital and reserves of the group that are managed as capital.

The bank bill facility includes financial covenants whereby the debt cover ratio must be no less than 2 times and the operating leverage ratio must be no higher than 1.50 times. Monitoring of said covenants is performed monthly by management and signed off quarterly by the board. At 30 June 2013 there were no instances of non-compliance.

(b) Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

These policies were consistent throughout the current year and the prior year.

(c) Financial risk management objectives

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages financial risks relating to the operations of the Group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(d) Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure is continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of these accounts receivable and advance payments are requested where deemed appropriate.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

Apart from the three largest customers of the Group (refer to Notes 3 and 9), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

NOTES TO THE
FINANCIAL
STATEMENT**(e) Foreign currency risk management**

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	LIABILITIES		ASSETS	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
USD	522	164	446	269
GBP	8	34	-	-
NZD	-	-	4	17
EUR	2	17	-	-
CND	18	-	-	-
	550	215	450	286

Amounts of exposure are not currently significant and as such forward contracts and currency swap agreements are not used.

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group predominantly trades in Australian dollars (AUD), but has limited exposure to the US dollar (USD) based on a portion of its overseas sales and purchases.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian Dollar against the USD. 10% is the sensitivity rate used when assessing foreign currency risk internally by key management and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis

includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit.

	USD IMPACT	
	2013 \$'000	2012 \$'000
Profit or Loss	8	(11)

This is attributable to the exposure outstanding on USD receivables and payables at year end in the Group. The exposure to movement in NZD, EUR and GBP is not deemed to be significant.

(f) Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and liabilities recorded at amortised cost in the financial statements approximates their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

The Group does not recognise any financial instruments that are measured subsequent to initial recognition at fair value.

(g) Interest rate risk management

The Group is exposed to interest rate risk as it holds cash at floating interest rates. The following table details the Group's exposure to interest rate risk as at 30 June 2013 and 30 June 2012.

2013	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE MATURITY				TOTAL \$'000
		LESS THAN 1 YEAR \$'000	1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000	NON- INTEREST BEARING \$'000	
Financial assets						
Cash	2.20	768	-	-	-	768
Receivables	-	-	-	-	2,342	2,342
		768	-	-	2,342	3,110
Financial liabilities						
Payables	-	-	-	-	1,630	1,630
Borrowings	5.64	1,356	88	-	-	1,444
		1,356	88	-	1,630	3,074

2012	VARIABLE INTEREST RATE MATURITY					TOTAL \$'000
	AVERAGE INTEREST RATE %	LESS THAN 1 YEAR \$'000	1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000	NON- INTEREST BEARING \$'000	
Financial assets						
Cash	4.28	3,483	–	–	–	3,483
Receivables	–	–	–	–	2,048	2,048
		3,483	–	–	2,048	5,531
Financial liabilities						
Payables	–	–	–	–	1,559	1,559
		–	–	–	1,559	1,559

The following table details the Group's sensitivity to a 50 basis point increase or decrease in interest rates.

	2013 \$'000	2012 \$'000
Profit or Loss	(3)	18

(h) Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

LIQUIDITY RISK TABLE

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes the principal cash flows.

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	LESS THAN 1 YEAR \$'000	1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000	TOTAL \$'000
2013					
Payables	–	1,630	–	–	1,630
Borrowings	5.64	1,356	88	–	1,444
		2,986	88	–	3,074
2012					
Payables	–	1,559	–	–	1,559
		1,559	–	–	1,559

32. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

Refer to note 1 for a summary of the significant accounting policies relating to the Group.

FINANCIAL POSITION	30 JUNE 2013 \$'000	30 JUNE 2012 \$'000
Assets		
Current Assets	5,194	6,687
Non-Current Assets	15,335	12,449
Total Assets	20,529	19,136
Liabilities		
Current Liabilities	3,137	2,133
Non-Current Liabilities	1,389	834
Total Liabilities	4,526	2,967
Equity		
Issued capital	10,560	9,354
Reserves	-	103
Retained earnings	5,443	6,712
Total Equity	16,003	16,169

	2013 \$'000	2012 \$'000
Financial Performance		
Profit for the year	2,554	2,704
Other comprehensive income	-	-
Total comprehensive income	2,554	2,704

33. ADDITIONAL COMPANY INFORMATION

Medical Developments International Limited is a listed public company, incorporated and operating in Australia.

Company Secretary

Mrs Wendy Gouveia

Registered office and principal place of business

7/56 Smith Road, Springvale, VIC 3171

Tel: (03) 9547 1888

Share registry

Computershare Investor Services Pty Ltd
Yarra Falls

452 Johnston Street, Abbotsford, VIC 3067

Tel: 1300 850 505

ADDITIONAL STOCK EXCHANGE INFORMATION

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2013

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

57,420,703 fully paid ordinary shares held by 992 individual shareholders. All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities

Fully paid ordinary shares

1 – 1,000	129
1,001 – 5,000	302
5,001 – 10,000	185
10,001 – 100,000	322
100,001 and over	54
	992
Holding less than a marketable parcel	37

SUBSTANTIAL SHAREHOLDERS	NUMBER	%
Mr David John Williams	30,207,607	52.60%

TWENTY LARGEST HOLDERS OF EQUITY SECURITIES	NUMBER	%
MR DAVID JOHN WILLIAMS	30,207,607	52.60%
DR RUSSELL KAY HANCOCK	1,300,727	2.27%
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	1,276,339	2.22%
CITICORP NOMINEES PTY LIMITED	1,023,262	1.78%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	847,931	1.48%
MR JOHN SHARMAN <NOMINEE A/C>	769,230	1.34%
MRS ERICA MARGARET STRONG	725,000	1.26%
NATIONAL NOMINEES LIMITED	601,150	1.05%
MR ALISTAIR DAVID STRONG	465,000	0.81%
IMAJ PTY LTD <SUPER FUND A/C>	425,924	0.74%
MULLACAM PTY LTD <MCCALLUM FAMILY S/FUND A/C>	420,095	0.73%
MR RAYMOND WILLIAM WALTER + MR ALEXANDER SCOTT HAGAN <WALTER FAMILY SUPER FUND A/C>	416,311	0.73%
MR MICHAEL GERARD SUGERMAN	375,550	0.65%
MR PHILIP JOHN POWELL + MRS GLENNYS ELLEN POWELL <PRIME NUMBERS S/F A/C>	352,074	0.61%
MR ANTHONY COULEPIS + MRS MARGARITA COULEPIS <COULEPIS FAMILY S/F A/C>	341,054	0.59%
HOLLYWIND PTY LTD <LOLATGIS PENSION FUND A/C>	247,000	0.43%
MR ALAN ROSS BARRY	223,000	0.39%
SOM INVESTMENTS PTY LTD <SOM SUPERANNUATION FUND A/C>	220,505	0.38%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	215,238	0.37%
DR HARRY FRANK OXER	203,804	0.35%

CORPORATE DIRECTORY

Medical Developments International Limited is a listed public Company, incorporated and operating in Australia.

DIRECTORS

David Williams

Allan McCallum

Harry Oxe

Maurice Van Ryn

Max Johnston

COMPANY SECRETARY

Mrs Wendy Gouveia

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

7/56 Smith Road

Springvale VIC 3171

Tel: (03) 9547 1888

SHARE REGISTRY

Computershare

Yarra Falls

452 Johnston Street

Abbotsford VIC 3067

Tel: 1300 850 505

AUDITOR

Deloitte Touche Tohmatsu

550 Bourke Street

Melbourne

Victoria 3000

BANK

Westpac Banking Corporation

360 Collins Street

Melbourne

Victoria 3000

