Medical Developments International

Annual Report

2014

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CHAIRMAN'S AND CEO'S REPORT


DAVID WILLIAMS CHAIRMAN


JOHN SHARMAN CEO

WELL POSITIONED FOR THE FUTURE

Medical Developments International Limited. ("MDI") (ASX: MVP) delivered a **Net Profit after Tax of $875,000** for the year ended 30 June 2014.

In August 2013, the Board declared a 2 cent fully franked dividend which was paid in October 2013. No further dividends were paid during the year.

Trading for the six months ended 30 June 2014, represents a significant improvement to the trading performance of the six months ended 31 December 2013. The business faced a number of challenges in our respiratory division during the first half. As a result of these negative impacts we took immediate action to reduce our overheads and improve efficiencies. The second half delivered an EBIT growth of 169% compared with H1FY14 results (H2FY14: $565,000: H1FY14 $210,000). More importantly a number of initiatives in our Respiratory business are beginning to deliver sales growth. Combined with our Penthrox® initiatives and new markets coming on stream we expect FY15 to be a much better year in terms of delivering profit growth.

We have made excellent progress in the approval process for Penthrox® in Europe. Our regulatory dossier and Marketing Authorisation Application was submitted and accepted by the MHRA in November 2013. In January 2014, MDI received responses from the Medicines and Healthcare Products Regulatory Agency ("MHRA") which included a number of additional questions and points for clarification. MDI submitted its responses to these questions in August 2014. If MDI's Marketing Authorisation Application is granted, Penthrox® will be approved for sale in the United Kingdom, France, Belgium and Ireland during 2014.

The approval of our Space Chamber Plus® range of respiratory devices in the USA is a significant achievement. We have added products from our range of respiratory masks and our portable nebuliser to our USA approved products and we are in detailed discussions with a number of potential partners who have the capability to generate meaningful sales into the USA respiratory device market.

KEY ACHIEVEMENTS 2013/2014

PENTHROX®

- Completed our Regulatory Dossier which will be used to achieve the approval of Penthrox® for sale in markets in various countries around the world.
- Approval from regulatory authorities to sell Penthrox® in South Africa.
- Penthrox® approved for reimbursement in New Zealand hospitals.
- Lodged regulatory application for the sale of Penthrox® in the United Kingdom.
- Lodged regulatory application for the sale of Penthrox® in France.
- Lodged regulatory application for the sale of Penthrox® in Belgium.
- Lodged regulatory application for the sale of Penthrox® in Ireland.
- Lodged regulatory application for the sale of Penthrox® in Singapore.
- Lodged regulatory application for the sale of Penthrox® in Russia.
- Lodged regulatory application for the sale of Penthrox® in Saudi Arabia.
- Lodged regulatory application for the sale of Penthrox® in Israel.
- Preparing to submit regulatory application to sell Penthrox® in Mexico.
- Finalised agreement with distribution partner in Singapore.

SUMMARY OF KEY ACHIEVEMENTS

- Finalised agreements with distribution partners in Mexico.
- Appointed advisors to locate suitable business partners for Penthrox® in Europe and progressing licensing talks with interested partners in Europe.
- Engaged regulatory advisors for Penthrox® in the USA.
- Appointed New Zealand distribution partner who achieved sales growth of 48%.
- Appointed exclusive Australian distribution partner for the dental market.
- Sales growth of 55% for our Middle East business.
- New 1.5ml Penthrox® product approved for sale in Australia.
- Developing additional Penthrox® products for our markets domestically and overseas.
- Commenced the Drive Study at Royal Adelaide Hospital, aimed to demonstrate the use of Penthrox® does not impair patient's ability to drive or operate machinery.
- Commenced an active comparative trial in Singapore with the Singapore Emergency Ambulance Service comparing the effectiveness of Penthrox® and Tramadol.

RESPIRATORY MEDICAL DEVICES

- Completed independent trials in North America on Space Chamber Plus® range.
- Approval from USA Food & Drug Administration to sell our range of Space Chamber Plus® devices in the USA.
- Added our range of respiratory masks and portable nebuliser to products available for sale in the USA.
- Received approval from National Health Service ("NHS") to reimburse the cost of six additional Space Chamber Plus® Combination (with masks) products in the UK.
- Launched new autoclavable Space Chambers Plus®.
- Initial sales to the Benelux region.
- Appointment of distribution partner and initial sales in Italy.
- Appointment of distribution partner and initial sales in Greece.
- Appointment of distribution partner and initial sales in Cyprus.
- Signed new distribution agreement in Singapore and Hong Kong.

VET AND MEDICAL DEVICES

- Record Vet Sales (up 45% year on year).
- Record Medical Device sales (up 36% year on year).

OTHER

- Successfully completed 2nd Stage of the CSIRO project and commenced work on the final phase of a new manufacturing process.
- Ongoing improvement in manufacturing costs and efficiency.
- 21.3% improvement in cash generated from operating activities.
- Claimed R&D Tax Incentive concession of $266,000.
- Invested $1.2 million on developing our Regulatory Dossier, clinical trials and MDI's Marketing Authorisation Application.

REVIEW OF OPERATIONS

PHARMACEUTICALS

During the year MDI completed its regulatory dossier and used it to submit applications to have Penthrox® approved for sale in a number of countries including the UK, France, Belgium, Ireland, Saudi Arabia, Singapore, Israel and Russia.

Since the beginning of FY11 MDI has invested heavily in building its clinical data base and Regulatory Dossier. We have directly and indirectly assisted, completed and or finalised the following clinical studies:

- A randomised, double blind, multi-centre, placebo controlled study to evaluate the efficacy and safety of methoxyflurane (Penthrox®) for the treatment of acute pain in patients presenting to an Emergency Department with minor trauma, conducted in the UK Emergency Departments (Nottingham University Hospitals NHS Trust), Nottingham, UK;
- A randomised, double-blind, single centre, placebo-controlled study to assess the safety and efficacy of methoxyflurane (Penthrox®) for the treatment of procedural pain in patients undergoing a bone marrow biopsy procedure - Peter MacCallum Cancer Centre, Melbourne, Victoria, Australia;
- A phase I, double-blind, double-dummy, randomised, placebo- and positive-controlled, 3-way crossover, thorough QT/QTc study to evaluate the effect of a supratherapeutic single dose of methoxyflurane (Penthrox®) on cardiac repolarisation in healthy male and female subjects in 2013 - Burnet Institute, Victoria, Australia;
- Effects of Penthrox® (methoxyflurane) as an analgesic on cardiovascular and respiratory function in the pre-hospital setting - Western Australia Ambulance Service, Western Australia, Australia;
- Patient-controlled analgesia with inhaled methoxyflurane versus conventional endoscopist-provided sedation for colonoscopy: a randomized multicenter trial - Royal Adelaide Hospital, Adelaide, South Australia, Australia;
- The 'green whistle': A novel method of analgesia for transrectal prostate biopsy - Department Of Surgery , Monash University , Bairnsdale, Victoria, Australia;
- Penthrox® inhaler analgesia in transrectal ultrasound-guided prostate biopsy - Sydney Adventist Hospital Clinical School, The University of Sydney, Sydney, New South Wales, Australia;
- Penthrox for colonoscopy in patients with morbid obesity and/or obstructive sleep apnoea - Royal Adelaide Hospital, Adelaide, South Australia, Australia; and
- Inhaled methoxyflurane for pain and anxiety relief during burn wound care procedures: an Australian case series - The Alfred Hospital, Melbourne, Victoria, Australia.

Other clinical trials are planned which may open up new areas of use for Penthrox®. During the year we have directly and indirectly assisted commencement of the following studies:

- A psychomotor function study at Royal Adelaide Hospital which will determine if Penthrox impairs the cognitive ability of patients to drive or operate machinery; and
- An active comparative trial in Singapore with the Singapore Emergency Ambulance Service comparing the effectiveness of Penthrox and intramuscular Tramadol.

COMMERCIALISATION

SOUTH AFRICA

Since 2010, MDI has been working with its business partner to obtain registration for the sale of Penthrox® in South Africa. In June 2014, we received approval to sell Penthrox® in South Africa. We expect South Africa will be a significant market for Penthrox® when we commence sales activities in FY15.

USA

We have begun the process of reviewing the necessary steps to get Penthrox® approved for sale in the USA. We expect to progress this approval process once we have achieved registration in Europe.

RUSSIA

We have been working on our Russian Registration Dossier to have Penthrox® approved for sale In Russia for more than two years. The Russian Registration Dossier has been reviewed by experts and application lodged with the Ministry of Health for Russia. We expect the process of approval will take at least 12 months.

EUROPE

MDI is negotiating with several marketing partners to represent us in various European markets.

EASTERN EUROPE AND MIDDLE EAST

Internationally, our Eastern European business performed below expectations with sales **falling 58%**. This is mainly due to the political unrest in the region and we expect this business to recover in FY15. Our Middle East Penthrox® business **grew by 55%** and is showing good signs of continued strong growth.

NEW ZEALAND

Our New Zealand business **grew by 49%**. Following on from Penthrox being approved for reimbursement in New Zealand hospitals we appointed new distributors to grow our Penthrox business in New Zealand in December 2013. Penthrox® can now be used in all hospitals in New Zealand and is reimbursed by the New Zealand government, which represents a significant opportunity for growth. We expect FY15 to deliver further good growth in this market.

AUSTRALIA

Domestically, sales to Ambulance **fell 16%** during the year due to a change in stocking policy. Sales in the last two months of FY14, and the first two months of FY15 confirm that sales have recovered and we expect to record growth in our Ambulance business in FY15.

MEDICAL DEVICES: RESPIRATORY

AUSTRALIA

Overall our Australian respiratory business was down 53%. In Australia the cancellation of a supply contract with GSK reduced revenue by circa $1.0 million (year on year), and the merger between Symbion and EBOS significantly reduced sales for respiratory devices. Our business with Symbion is expected to recover and new initiatives with other partners are beginning to deliver sales growth. We expect sales to our Australian business to recover and deliver strong growth in FY15.

USA

During the year we received FDA approval to sell our range of Space Chamber Plus® devices and we made our first sales into the USA market. Since the initial FDA approval we have added products from our range of masks and our portable nebuliser, which can now also be sold in the USA. Additional products are in the final stages of being submitted for approval including our “Combination Space Chamber & Mask” products and our new “anti-static” Compact Space Chamber Plus products. We expect the full range of our respiratory products to be approved for sale during FY15.

Our initial assessment of the USA market is that there are approximately 20 million space chamber 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

During the year we registered and received NHS approval for reimbursement of our Combination Space Chamber & Mask range of products to complement our existing Space Chamber Plus® range of devices in the UK. We also signed distribution deals with partners in Italy and Greece and delivered our first products into those markets and also made our first sales into Belgium and the Netherlands. We expect further significant improvements in our European Respiratory Device business during FY15.

NEW ZEALAND

Our New Zealand business suffered its first real contraction for many years during H1FY14 due to an unusually mild asthma season. We are pleased to announce H2FY14 sales **grew 167%** compared to H1FY14, and **20% greater** than for the corresponding H2FY13 sales. We expect our New Zealand business to continue to perform strongly in FY15.

ASIA

We have increased our presence and marketing efforts throughout Asia. Sales into this region grew 47% year on year and we expect further growth in FY15.

OTHER

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

MEDICAL DEVICES: OTHER

Sales of our Medical Devices (non-respiratory) **grew 36%** during the year. Most of the growth is attributed to the introduction of new products to our range and an increased sales and marketing effort.

VET

Our Vet business **grew 45%** during the year and is showing signs of further strong growth. Our increased sales efforts, the expansion of some of our international customers and the fall in the Australian dollar helped our export business into Europe. We expect our European business to continue to grow during FY15.

RESEARCH AND DEVELOPMENT

MDI announced in July 2012 that we had launched a significant research initiative with the CSIRO aimed at

REVIEW OF OPERATIONS

improving the productivity and reducing the cost of our pharmaceutical manufacturing business. We have begun the final stage of constructing our commercial scale plant which we expect to be fully operational during 2015. If successful this initiative will deliver significant production cost benefits and valuable intellectual property to MDI.

PRODUCT DEVELOPMENT

MDI continues to make a significant investment in developing its internal product development capabilities. During the year, MDI developed and/or launched:

PENTHROX®

- New 1.5ml Penthrox® product.

ASTHMA MEDICAL DEVICES

- Space Chamber Plus® autoclavable;
- Space Chamber Plus® Combination Pack (3 sizes).

OTHER MEDICAL DEVICES

- Oxygen Face Masks and tubing kits;
- Oxygen tubing;
- Tourniquet;
- Guedel airways (Multi packs);
- Emergency Medical Consumables.

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. The capital expenditure on clinical studies required to build our regulatory dossier has largely been completed and is not expected to be a material cash investment in FY15.

We expect our R&D tax concession refund for FY14 to be circa $290,000.

DIVIDEND

No dividends are declared.

OUTLOOK

Our strategy to introduce Penthrox® to new markets around the world is progressing well. With the completion of the clinical trials required to build a “world class” Regulatory Dossier, we have moved into the next phase of growing our Penthrox® business which involves identifying appropriate business partners in markets around the world and submitting marketing applications / requests to sell Penthrox® in these new markets.

We are well on the way to achieving results and have used our Regulatory Dossier to submit applications to have Penthrox® approved for sale with regulatory authorities in the UK, France, Ireland, Belgium, Singapore, Israel, Saudi Arabia and Russia. In FY15 we expect to submit a number of additional applications to have Penthrox® available for sale in a number of new 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.

While FY14 has been a challenging year for our company, we are confident the future is extremely bright. We expect FY15 to deliver significant positive results for all our stakeholders in the business and in particular for shareholders, employees, customers and patients who benefit from the products we make.

MR JOHN SHARMAN
Chief Executive Officer
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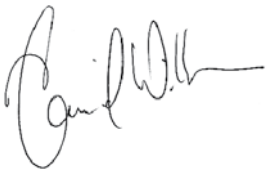

MR DAVID WILLIAMS
Chairman
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PRODUCT PORTFOLIO

PHARMACEUTICAL

ANALGESIA	Penthrox®

MEDICAL

ASTHMA	Space Chamber Plus®
	Compact Space Chamber Plus®
	Space Chamber Plus® autoclavable spacer
	Breath-Alert® peak flow meter
	MyMDI™ Portable Nebuliser
	MyMDI™ Pulse Oximeter
FACE MASKS	EZ-fit silicone and disposable face 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 Penthrox®. Penthrox® continues to be used as a 'first line' product for the treatment of pain in trauma by all Ambulance Services in Australia. MVP continued the promotional focus into the Australian Ambulance services ensuring that the strong positioning of Penthrox® is maintained. Moving forward, the strategy is to continue to broaden the range customers (hospitals, general practice, dental and cosmetic) and countries that can be served by Penthrox®

PRODUCT SUITE

MVP is continuing to develop additional formulations of Penthrox® to provide improve convenience, utility and value for its customers.

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

MEDICAL DEVICES

Building our product range

MVP's focus in FY15 will be to add to our established product range, to build on the solid foundation that has been established with our current partnerships in Australia and overseas. At the same time MVP will develop new collaborations for future growth. Core to the growth is the development of new and improved models of:

- Asthma/COPD Space Chambers
- Penthrox® Inhaler
- Peak Flow Meters
- Portable Nebulisers
- Pulse Oximeter
- Face Masks
- Tourniquets
- Emergency Medicine consumable equipment

RESPIRATORY DEVICES

MVP's Asthma devices business has been strong for many years and continues to provide solid sales and profit.

The success of this business over recent years has been due to four factors:

- The strength of our Asthma devices business with our partner in New Zealand
- The strength of the Allersearch brand in Australian Hospitals and Pharmacies and our distribution partner
- The growth of the OAPL sales in Hospitals and Pharmacies within Australia
- Growing sales of our range of Asthma products through established international partners and new customers

PRODUCT DEVELOPMENT

MVP's Space Chamber is well known in the market place as the 'Rolls Royce' brand and it offers the greatest opportunity for future growth in the Asthma devices market. To assist in future growth MVP has developed new and improved Space Chambers to assist with differentiation and local and international penetration.

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. Through new products a specifically tailored catalogue and promotion via our Australian distributor will assist future sales growth.

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. 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
(resigned 28 July 2014)

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.

MR LEON HOARE
Non-Executive Director
(appointed 27 September 2013)

Mr Hoare is the Managing Director of Smith & Nephew in Australia & New Zealand (covering all Divisions), which is one of the largest global subsidiaries (outside the USA). In his 23 years with Smith & Nephew, he has held roles in Marketing, Divisional and General Management, and was most recently Asia Pacific President of the Advanced Wound Management (AWM) Division, before advancing to the Managing Director role in 2014. He has also been a member of the Global Executive Management for the AWM Division of Smith & Nephew for the past 5 years. External to Smith & Nephew, Mr Hoare previously held board roles with Australia's peak medical device body, Medical Technology Association of Australia (MTAA).

FULL-YEAR REPORT & APPENDIX 4E

FINANCIAL YEAR ENDED 30 JUNE 2014

(PREVIOUS CORRESPONDING PERIOD: FINANCIAL YEAR ENDED 30 JUNE 2013)

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	Down	20.1%	to	9,370
Profit after tax from operating activities attributable to members	Down	62.1%	to	875
Net Profit after tax attributable to members	Down	62.1%	to	875

EARNINGS PER SHARE

Basic earnings per share for the year ended 30 June 2014 was 1.5 cents (30 June 2013: 4.1 cents).

NET TANGIBLE ASSETS

Net tangible asset backing per ordinary share as at 30 June 2014 was 0.12 cents (30 June 2013: 2.5 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:	28 October, 2014
Time:	10.30am

ANNUAL FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 (who resigned on 28 July 2014) and David Williams (joined on 28 July 2014); and
- a Remuneration and Nominations Committee (Mr D Williams and 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.

CORPORATE GOVERNANCE STATEMENT

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 28% 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 62% of the workforce.

CORPORATE GOVERNANCE STATEMENT

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 the 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 Group Financial Controller 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 Director's Report includes considerable detail on the current remuneration of directors and executives including how performance conditions for performance related payments are chosen and assessed.

CORPORATE GOVERNANCE STATEMENT

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 is one woman currently in senior management roles. Overall women represent 50% of the workforce of the Company.

The Company has implemented a strategy designed to increase the representation of women at the senior management level.

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 2014. 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 30 years experience in the investment banking sector. He is also Chairman of Calzada Ltd. and a Director of IDT Australia Ltd. Mr Williams is Chairman of the Remuneration and Nominations Committee and also a member of the Audit & Risk Committee.

MR A D McCALLUM, DIP.AG SCIENCE, FAICD

Non-Executive Director

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. He is also Chairman of Tassal Group Ltd.

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 R M JOHNSTON

Non-Executive Director

Mr Johnston is a non-executive director of Enero Group Limited and Chairman of Probiotec Limited. For 11 years he was President and Chief Executive Officer of Johnson & Johnson Pacific and an Executive Director of Johnson & Johnson. Mr Johnson 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. Mr Johnson 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 the Chairman of the Audit & Risk Committee.

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

MR M VAN RYN, B.BUS

Non-Executive Director (resigned 28 July 2014)

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. Prior to his resignation from the Board on 28 July 2014, Mr Van Ryn was also the Chairman of the Audit & Risk Committee.

MR L HOARE

Non-Executive Director (appointed 27 September 2013)

Mr Hoare is the Managing Director of Smith & Nephew in Australia & New Zealand (covering all Divisions), which is one of the largest global subsidiaries (outside the USA). In his 23 years with Smith & Nephew, he has held roles in Marketing, Divisional and General Management, and was most recently Asia Pacific President of the Advanced Wound Management (AWM) Division, before advancing to the Managing Director role in 2014. He has also been a member of the Global Executive Management for the AWM Division of Smith & Nephew for the past 5 years. External to Smith & Nephew, Mr Hoare previously held board roles with Australia's peak medical device body, Medical Technology Association of Australia (MTAA).

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	Calzada Ltd	Since Feb 2014
	IDT Australia Ltd	Since Dec 2010
	Clever Communications Australia Ltd (Chairman)	2007-2011
Allan McCallum	Tassal Group Ltd (Chairman)	Since Oct 2003
	Incitec-Pivot Ltd	Dec 1997-Dec 2013
Maurice Van Ryn	Probiotec Ltd (Chairman)	Since Jul 2006
Max Johnston	Probiotec Ltd	Since April 2010
	Enero Group Limited	Since March 2011

COMPANY SECRETARY

Mr Mark Edwards, B Acc. CA

Mr Edwards 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

FY14 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 its regulatory dossier and used it to submit applications to have Penthrox® approved for sale in a number of countries including the UK, France, Belgium, Ireland, Saudi Arabia, Singapore, Israel and Russia.

Since the beginning of FY11 MDI has invested heavily in building its clinical data base and Regulatory Dossier. We have directly and indirectly assisted, completed and or finalised the following clinical studies:

- A randomised, double blind, multi-centre, placebo controlled study to evaluate the efficacy and safety of methoxyflurane (Penthrox®) for the treatment of acute pain in patients presenting to an Emergency Department with minor trauma, conducted in the UK Emergency Departments (Nottingham University Hospitals NHS Trust), Nottingham, UK;
- A randomised, double-blind, single centre, placebo-controlled study to assess the safety and efficacy of methoxyflurane (Penthrox®) for the treatment of procedural pain in patients undergoing a bone marrow biopsy procedure - Peter MacCallum Cancer Centre, Melbourne, Victoria, Australia;
- A phase I, double-blind, double-dummy, randomised, placebo- and positive-controlled, 3-way crossover, thorough QT/QTc study to evaluate the effect of a supratherapeutic single dose of methoxyflurane (Penthrox®) on cardiac repolarisation in healthy male and female subjects in 2013 - Burnet Institute, Victoria, Australia;
- Effects of Penthrox® (methoxyflurane) as an analgesic on cardiovascular and respiratory function in the pre-hospital setting - Western Australia Ambulance Service, Western Australia, Australia;
- Patient-controlled analgesia with inhaled methoxyflurane versus conventional endoscopist-provided sedation for colonoscopy: a randomized multicenter trial - Royal Adelaide Hospital, Adelaide, South Australia, Australia;
- The 'green whistle': A novel method of analgesia for transrectal prostate biopsy - Department Of Surgery , Monash University , Bairnsdale, Victoria, Australia;
- Penthrox® inhaler analgesia in transrectal ultrasound-guided prostate biopsy - Sydney Adventist Hospital Clinical School, The University of Sydney, Sydney, New South Wales, Australia;
- Penthrox® for colonoscopy in patients with morbid obesity and/or obstructive sleep apnoea - Royal Adelaide Hospital, Adelaide, South Australia, Australia; and
- Inhaled methoxyflurane for pain and anxiety relief during burn wound care procedures: an Australian case series - The Alfred Hospital, Melbourne, Victoria, Australia.

Other clinical trials are planned which may open up new areas of use for Penthrox®. During the year we have directly and indirectly assisted commencement of the following studies:

- A psychomotor function study at Royal Adelaide Hospital which will determine if Penthrox® impairs the cognitive ability of patients to drive or operate machinery; and
- An active comparative trial in Singapore with the Singapore Emergency Ambulance Service comparing the effectiveness of Penthrox® and intramuscular Tramadol.

COMMERCIALISATION

SOUTH AFRICA

Since 2010, MDI has been working with its business partner to obtain registration for the sale of Penthrox® in South Africa. In June 2014, we received approval to sell Penthrox® in South Africa. We expect South Africa will be a significant market for Penthrox® when we commence sales activities in FY15.

USA

We have begun the process of reviewing the necessary steps to get Penthrox® approved for sale in the USA. We expect to progress this approval process once we have achieved registration in Europe.

RUSSIA

We have been working on our Russian Registration Dossier to have Penthrox® approved for sale In Russia for more than two years. The Russian Registration Dossier has been reviewed by experts and application lodged with the Ministry of Health for Russia. We expect the process of approval will take at least 12 months.

EUROPE

MDI is negotiating with several marketing partners to represent us in various European markets.

EASTERN EUROPE AND MIDDLE EAST

Internationally, our Eastern European business performed below expectations with sales **falling 58%**. This is mainly due to the political unrest in the region and we expect this business to recover in FY15. Our Middle East Penthrox® business **grew by 55%** and is showing good signs of continued strong growth.

NEW ZEALAND

Our New Zealand business **grew by 49%**. Following on from Penthrox being approved for reimbursement in New Zealand hospitals we appointed new distributors to grow our Penthrox® business in New Zealand in December 2013. Penthrox® can now be used in all hospitals in New Zealand and is reimbursed by the New Zealand government, which represents a significant opportunity for growth. We expect FY15 to deliver further good growth in this market.

AUSTRALIA

Domestically, sales to Ambulance **fell 16%** during the year due to a change in stocking policy. Sales in the last two months of FY14, and the first two months of FY15 confirm that sales have recovered and we expect to record growth in our Ambulance business in FY15.

MEDICAL DEVICES: RESPIRATORY

AUSTRALIA

Overall our Australian respiratory business was down 53%. In Australia the cancellation of a supply contract with GSK reduced revenue by circa $1.0 million (year on year), and the merger between Symbion and EBOS significantly reduced sales for respiratory devices. Our business with Symbion is expected to recover and new initiatives with other partners are beginning to deliver sales growth. We expect sales to our Australian business to recover and deliver strong growth in FY15.

USA

During the year we received FDA approval to sell our range of Space Chamber Plus® devices and we made our first sales into the USA market. Since the initial FDA approval we have added products from our range of masks and our portable nebuliser, which can now also be sold in the USA. Additional products are in the final stages of being submitted for approval including our "Combination Space Chamber & Mask" products and our new "anti-static" Compact Space Chamber Plus® products. We expect the full range of our respiratory products to be approved for sale during FY15.

Our initial assessment of the USA market is that there are approximately 20 million space chamber 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

During the year we registered and received NHS approval for reimbursement of our Combination Space Chamber & Mask range of products to complement our existing Space Chamber Plus® range of devices in the UK. We also signed distribution deals with partners in Italy and Greece and delivered our first products into those markets and also made our first sales into Belgium and the Netherlands. We expect further significant improvements in our European Respiratory Device business during FY15.

NEW ZEALAND

Our New Zealand business suffered its first real contraction for many years during H1FY14 due to an unusually mild asthma season. We are pleased to announce H2FY14 sales **grew 167%** compared to H1FY14, and **20% greater** than for the corresponding H2FY13 sales. We expect our New Zealand business to continue to perform strongly in FY15.

ASIA

We have increased our presence and marketing efforts throughout Asia. Sales into this region grew 47% year on year and we expect further growth in FY15.

OTHER

We have increased our presence and marketing efforts throughout Asia. Sales into this region grew 47% year on year and we expect further growth in FY15.

MEDICAL DEVICES: OTHER

Sales of our Medical Devices (non-respiratory) **grew 36%** during the year. Most of the growth is attributed to the introduction of new products to our range and an increased sales and marketing effort.

VET

Our Vet business **grew 45%** during the year and is showing signs of further strong growth. Our increased sales efforts, the expansion of some of our international customers and the fall in the Australian dollar helped our export business into Europe. We expect our European business to continue to grow during FY15.

RESEARCH AND DEVELOPMENT

MDI announced in July 2012 that we had launched a significant research initiative with the CSIRO aimed at improving the productivity and reducing the cost of our pharmaceutical manufacturing business. We have begun the final stage of constructing our commercial scale plant which we expect to be fully operational during 2015. If successful this initiative will deliver significant production cost benefits and valuable intellectual property to MDI.

PRODUCT DEVELOPMENT

MDI continues to make a significant investment in developing its internal product development capabilities. During the year, MDI developed and/or launched:

PENTHROX®

- New 1.5ml Penthrox® product.

ASTHMA MEDICAL DEVICES

- Space Chamber Plus® autoclavable;
- Space Chamber Plus® Combination Pack (3 sizes).

OTHER MEDICAL DEVICES

- Oxygen Face Masks and tubing kits;
- Oxygen tubing;
- Tourniquet;
- Guedel airways (Multi packs); and
- Emergency Medical Consumables.

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. The capital expenditure on clinical studies required to build our regulatory dossier has largely been completed and is not expected to be a material cash investment in FY15.

We expect our R&D tax concession refund for FY14 to be circa $290,000.

DIVIDEND

No dividends are declared.

OUTLOOK

Our strategy to introduce Penthrox® to new markets around the world is progressing well. With the completion of the clinical trials required to build a "world class" Regulatory Dossier, we have moved into the next phase of growing our Penthrox® business which involves identifying appropriate business partners in markets around the world and submitting marketing applications / requests to sell Penthrox® in these new markets.

We are well on the way to achieving results and have used our Regulatory Dossier to submit applications to have Penthrox® approved for sale with regulatory authorities in the UK, France, Ireland, Belgium, Singapore, Israel, Saudi Arabia and Russia. In FY15 we expect to submit a number of additional applications to have Penthrox® available for sale in a number of new 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.

While FY14 has been a challenging year for our company, we are confident the future is extremely bright. We expect FY15 to deliver significant positive results for all our stakeholders in the business and in particular for shareholders, employees, customers and patients who benefit from the products we make.

FINANCIAL POSITION

The capital structure of the Group remained stable during the period.

- Interest bearing liabilities at 30 June 2014 total $3,662,000;
- Post 30 June 2014, the Group extended its debt facility through to August 2016; and
- The key financial covenants attached to this debt facility include current, debt cover and operating leverage ratios and there are no forecasted breaches in the coming 12 month period.

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

In August 2014, the Company has renegotiated its Bank Bill Facility and related financial covenants. The initial facility was due to expire in May 2015 which is the reason the entire loan was classified as a current liability at 30 June 2014. The refinanced facility remains at $3.950m and now extends through to August 2016.

There has not been any other 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 2 cents per share fully franked in respect of the year ended 30 June 2013 and was paid on 11 October 2013.

There were no dividends declared for the full year ended 30 June 2014.

SHARE OPTIONS

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

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

At 30 June 2014 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, 9 board meetings, two audit and risk committee meetings and two remuneration and nominations committee meeting were held.

	BOARD OF DIRECTORS		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATIONS	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
D.J. Williams	9	9	-	-	2	2
A.D. McCallum	9	9	-	-	2	2
H.F. Oxer	9	9	-	-	-	-
M. Van Ryn	9	9	2	2	-	-
M. Johnston	9	9	2	2	-	-
L. Hoare	8	8	-	-	-	-

DIRECTORS' REPORT

DIRECTORS' SHAREHOLDINGS

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

	FULLY PAID SHARES
D.J. Williams	30,370,890
A.D. McCallum	477,497
H.F. Oxer	207,013
M. Johnston	30,000
L. Hoare	-

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 2014. 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)
- H.F. Oxer (Non-executive)
- A.D. McCallum (Non-executive)
- M. Van Ryn (Non-executive) (resigned 28 July 2014)
- R.M. Johnston (Non-executive)
- L. Hoare (Non-executive) (appointed 27 September 2013)

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

- J. Sharman (Chief Executive Officer)
- W. Gouveia (Company Secretary) (resigned 23 October 2013)
- A. Manhire (Company Secretary) (appointed on 23 October 2013 and resigned on 10 June 2014)
- M. Edwards (Company Secretary) (appointed on 10 June 2014)

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.

KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS – FULLY PAID ORDINARY SHARES

2014	BALANCE AT 30 JUNE 2013 No.	ISSUED DURING THE YEAR No.	NET OTHER CHANGE No.	BALANCE AT 30 JUNE 2014 No.
Directors				
D.J. Williams	30,202,225	-	168,665	30,370,890
A.D. McCallum	470,095	-	7,402	477,497
H.F. Oxer*	203,804	-	3,209	207,013
M. Van Ryn	1,321,029	-	5,057	1,326,086
M. Johnston	20,000	-	10,000	30,000
L. Hoare	-	-	-	-
J. Sharman	769,230	-	(132,000)	637,230
	32,986,383	**-**	**62,333**	**33,048,716**

2013	BALANCE AT 30 JUNE 2012 No.	ISSUED DURING THE YEAR No.	NET OTHER CHANGE No.	BALANCE AT 30 JUNE 2013 No.
Directors				
D.J. Williams	29,789,601	-	412,624	30,202,225
A. Coulepis	474,424	-	(474,424)	-
I.M.C. Kirkwood	112,270	-	(112,270)	-
A.D. McCallum	470,095	-	0	470,095
H.F. Oxer	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
	32,873,712	**961,351**	**(848,680)**	**32,986,383**

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

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:

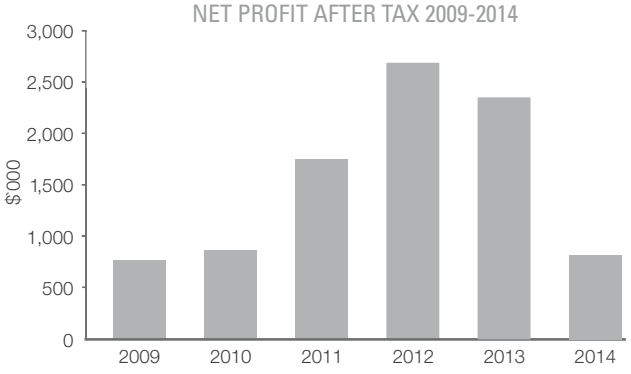
- base salary and fees, which are determined by reference to the market rate based on payments at similar sized companies in the industry; and
- Performance incentives, which have two components – short term incentives based on achieving key performance indicators during the year and payable in cash, 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 five financial years, which demonstrate that the company has been consistently profitable.



YEAR	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000
Revenue	8,727	8,296	10,206	11,313	11,733	9,370
NPBT	1,175	1,273	2,495	3,789	3,192	641
NPAT	810	879	1,743	2,704	2,309	875

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

YEAR	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000
Share price - start ($)	0.34	0.18	0.22	0.40	0.79	1.27
Share price - end ($)	0.18	0.22	0.40	0.79	1.27	1.32
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	1.50
Diluted Earnings per Share (cps)	1.50	1.70	3.40	5.10	4.10	1.50

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

DIVIDENDS

The directors declared a fully franked final dividend of 2 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2013.

As a result of the declared dividends paid during the year, the company issued 304,440 shares ($387,000) under its Dividends Reinvestment Plan and paid $760,000 in dividends.

There was no dividend declared for the full year ended 30 June 2014.

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 2014:

2014	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOY-MENT	LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES $	BONUS $	SUPER-ANNUATION $	LONG SERVICE LEAVE $	OPTIONS & RIGHTS $	$
Directors						
D.J. Williams	54,919	-	5,080	-	-	59,999
A.D. McCallum	34,325	-	3,175	-	-	37,500
H.F. Oxer*	56,293	-	5,207	-	-	61,500
M. Van Ryn (resigned 28 July 2014)	34,325	-	3,175	-	-	37,500
M. Johnston	34,325	-	3,175	-	-	37,500
L. Hoare (appointed 27 September 2013)	26,008	-	2,406	-	-	28,414
	240,195	**-**	**22,218**	**-**	**-**	**262,413**

** Dr Oxer's remuneration includes Directors Fees ($37,500) & Medical Consultant Fees ($24,000)*

The following table discloses the remuneration of the key executives of the company in 2014:

2014	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOY-MENT	LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES $	BONUS $	SUPER-ANNUATION $	LONG SERVICE LEAVE $	OPTIONS & RIGHTS $	$
Executives						
J. Sharman (Chief Executive Officer)	276,007	-	24,296	6,187	-	306,490
W. Gouveia (Company Secretary, resigned 23 October 2013) *	49,231	4,577	4,400	-	-	58,208
A. Manhire (Company Secretary, appointed 25 November 2013, resigned 10 June 2014) *	70,654	-	6,197	-	-	76,851
M. Edwards (Company Secretary, appointed 10 June 2014)	10,732	-	993	8	-	11,732
	406,624	**4,577**	**35,886**	**6,195**	**-**	**453,282**

** Included in Mrs Gouveia's remuneration are termination benefits of $6,536 disclosed as part of Salaries & Fees.*

** Included in Mr Manhire's remuneration are termination benefits of $3,636 disclosed as part of Salaries & Fees.*

With exception of Mrs Gouviea whose remuneration comprised of an 8% performance related component, no other director or key management personnel remuneration contained a performance related component.

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

2013	SHORT-TERM EMPLOYEE BENEFITS		POST EMPLOY-MENT	LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES $	BONUS $	SUPER-ANNUATION $	LONG SERVICE LEAVE $	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. Oxer*	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 Oxer's remuneration includes Directors Fees ($37,084) and 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 EMPLOY-MENT	LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS	TOTAL
	SALARY & FEES $	BONUS $	SUPER-ANNUATION $	LONG SERVICE LEAVE $	OPTIONS & RIGHTS $	$
Executives						
J. Sharman (Chief Executive Officer)	271,405	44,758	28,154	1,418	6,472	352,207
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	129	-	89,196
	399,201	**48,258**	**39,355**	**1,547**	**6,472**	**494,833**

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

With exception of Mr Sharman and Mrs Charan whose remuneration comprised of a 13% and 7% performance related component respecitvely, no other director or key management personnel remuneration contained a performance related component.

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 2014 financial year, discretionary bonuses totalling $4,577 (2013: $48,258) were determined and approved by the Remuneration and Nominations Committee in relation to key management personnel in respect of their performance in the 2013 financial year. These bonuses are reflected in the 2014 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	
				2014	2013
1	5 September 2011	$0.49	$96,501	-	-
2	5 September 2011	$0.97	$12,721	-	$6,119
3	5 September 2011	$1.46	$631	-	$353
Total			**$109,853**	**-**	**$6,472**

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

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

2013 LTIP	GRANT DATE	NUMBER EXCERCISED	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).

CONTRACT 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.

Mr Edwards 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

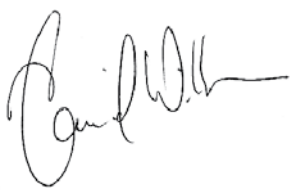
The auditor's independence declaration is included on page 30 of the annual report.

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, 21 August 2014

Deloitte.

Deloitte Touche Tohmatsu
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21 August 2014

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

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 2014, 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

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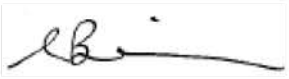

Chris Biermann
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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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 2014, 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 33 to 66.

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.

Deloitte.

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 2014 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.

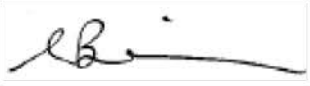
Report on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 29 of the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner
Chartered Accountants
Melbourne, 21 August 2014

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;

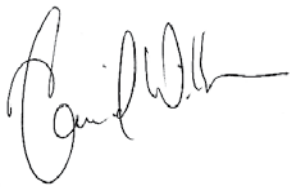
b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;

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



David Williams
Chairman
Melbourne, 21 August 2014

STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	NOTE	2014 $'000	2013 $'000
Revenue from sale of goods	4(a)	9,370	11,733
Cost of sales		(3,050)	(3,402)
Gross profit		6,320	8,331
Other income	4(a)	47	95
Distribution expenses		(516)	(471)
Marketing expenses		(1,560)	(1,649)
Occupancy expenses		(390)	(334)
Administration expenses		(1,742)	(1,369)
Regulatory and registration expenses		(960)	(668)
Other expenses		(558)	(743)
Profit before income tax expense	4(b)	641	3,192
Income tax expense	5(a)	234	(883)
Profit for the year		875	2,309
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss, net of income tax			
Exchange differences on translating foreign operations	22	(20)	(13)
Total comprehensive income for the year		855	2,296
Profit for the year attributable to:			
Owners of the parent		875	2,309
Total comprehensive income for the year attributable to:			
Owners of the parent		855	2,296
Earnings per Share:			
Basic (cents per share)	24	1.5	4.1
Diluted (cents per share)	24	1.5	4.1

Notes to the financial statements are included on pages 38-66

STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	NOTE	30 JUNE 2014 $'000	30 JUNE 2013 $'000
Current Assets			
Cash and cash equivalents	30(a)	1,659	768
Trade and other receivables	9	1,808	2,342
Inventories	10	1,446	1,357[(i)]
Current tax assets	5(c)	512	297
Other	11	153	118
Total Current Assets		**5,578**	**4,882**
Non-Current Assets			
Property, plant and equipment	13	1,125	1,026
Deferred tax assets	5(d)	104	61
Goodwill	14	7,368	7,368
Other intangible assets	15	8,385	6,942
Total Non-Current Assets		**16,982**	**15,397**
Total Assets		**22,560**	**20,279**
Current Liabilities			
Trade and other payables	16	1,092	1,630
Borrowings	17	3,089	1,356
Provisions	18	180	201
Total Current Liabilities		**4,361**	**3,187**
Non-Current Liabilities			
Deferred tax liabilities	5(e)	1,414	896[(i)]
Borrowings	17	573	88
Provisions	19	70	61
Other	20	318	318
Total Non-Current Liabilities		**2,375**	**1,363**
Total Liabilities		**6,736**	**4,550**
Net Assets		**15,824**	**15,729**
Equity			
Issued capital	21	10,946	10,559
Reserves	22	(33)	(13)
Retained earnings	23	4,911	5,183[(i)]
Total Equity		**15,824**	**15,729**

(i) The June 2013 comparative for Inventories, Deferred Tax Liabilities and Retained Earnings balances have been re-stated by $41,000, $26,000 and $15,000 respectively in order to correct a prior period error. The error related to a consolidation elimination adjustment for unrealised profits on the sale of inventories. This had no impact on the consolidated financial statements for the year ended 30 June 2014.

Notes to the financial statements are included on pages 38-66

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

FINANCIAL YEAR ENDED 30 JUNE 2014

	ISSUED CAPITAL	RETAINED EARNINGS	EMPLOYEE EQUITY SETTLED BENEFITS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL
	$'000	$'000	$'000	$'000	$'000
Opening balance	**10,559**	**5,183**	**-**	**(13)**	**15,729**
Profit for the year	-	875	-	-	875
Other comprehensive income for the year, net of income tax	-	-	-	(20)	(20)
Total comprehensive income for the year	-	875	-	(20)	855
Dividends reinvested in the form of shares	387	(387)	-	-	-
Dividends paid	-	(760)	-	-	(760)
Transfer to retained earnings	-			-	-
Closing balance	**10,946**	**4,911**	**-**	**(33)**	**15,824**

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)
Correction to prior period	-	(15)	-	-	(15)
Transfer to retained earnings	-	109	(109)	-	-
Closing balance	**10,559**	**5,183**	**-**	**(13)**	**15,729**

(i) The June 2013 comparative for Retained Earnings has been re-stated by $15,000 in order to correct a prior period error. The error related to a consolidation elimination adjustment for unrealised profits on the sale of inventories.

Notes to the financial statements are included on pages 38-66

STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	NOTE	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers		10,060	11,427
Payments to suppliers and employees		(9,128)	(9,347)
Receipts from government grants		-	-
Other income		25	42
Interest paid		(156)	(13)
Income tax received/(paid)		494	(1,132)
Net cash generated by operating activities	30(b)	1,295	977
Cash flows from investing activities			
Interest received		22	78
Payments for plant and equipment		(322)	(542)
Payments for other intangible assets		(1,537)	(2,487)
Net cash used in investing activities		(1,837)	(2,951)
Cash flows from financing activities			
Cash received from share issue		-	128
Dividends paid	23	(760)	(2,309)
Proceeds from hire purchase finance	17	144	175
Proceeds from borrowings	17	2,075	1,269
Net cash generated by/(used in) financing activities		1,459	(737)
Net increase/(decrease) in cash and cash equivalents		**917**	**(2,711)**
Cash and cash equivalents at the beginning of the financial year		**768**	**3,483**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(26)	(4)
Cash and cash equivalents at the end of the financial year	30(a)	**1,659**	**768**

Notes to the financial statements are included on pages 38-66

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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 21 August 2014.

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 goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 Profit or Loss and Other 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 the 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 Profit or Loss and Other 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 Profit or Loss and Other 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.

REGISTRATION COSTS

Items of expenditure on registrations are capitalised 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 capitalised 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 capitalised 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 Consolidated Statement of Profit or Loss and Other 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.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(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. Other than the charge over the groups assets held in relation to the bank bill loan, all other assets are not encumbered by any additional charge or mortgage.

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

R&D tax credits receivable as compensation for expenses or losses already incurred by the Company with no future related costs are recognised in profit or loss in the period in which they are quantified and become receivable. The company applies the income tax approach for the accounting and presentation of the R&D tax credit. Accordingly the tax benefit is presented as a reduction of income tax expense in the Statement of Profit or loss and other Comprehensive Income.

(u) 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

AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures' As a result the Group only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. In the current year the individual key management personnel disclosure previously required by AASB 124 (note 45.2.1 and 45.3.2 in the 30 June 2013 financial statements) is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013.
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	AASB 10 replaces the parts of AASB 127 'Consolidated and Separate Financial Statements' that deal with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee. Some guidance included in AASB 10 that deals with whether or not an investor that owns less than 50 per cent of the voting rights in an investee has control over the investee is relevant to the Group. The implementation of AASB 10 has not had a material impact on the consolidated financial statements.
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'	AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 4, 19, 20, 20A and 21 for details). The implementation of AASB 12 has not had a material impact on the consolidated financial statements.

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 2018	30 June 2019
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135 – Recoverable Amount Disclosures for Non- Financial Assets'	1 January 2014	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
INT 21 'Levies'	1 January 2014	30 June 2015
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018

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 (2013: $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 capitalised in previous periods. Consideration was given to the cost for each classification of capitalised costs to determine whether the corresponding benefits are likely to arise. Developments continue on the unamortised categories of registration costs capitalised 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. Management continually reassess the appropriateness of useful lives assigned to each individual category of registration costs. This situation will be closely monitored, and amortisation will be recognised in future periods as corresponding economic benefits flow. Details of the capitalised registration costs are provided in Note 15.

GOING CONCERN

The FY14 Financial statements have been prepared on a going concern basis. The going concern assumption continues to apply to Medical Developments International Ltd as at 30 June 2014 as the Group continues to be profitable, generates positive operating cash flows, has recently renewed its external loan facility and continues to be in a positive net asset position, which enables the Group to meets its debts and obligations as and when they fall due.

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 Penthrox® 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.

No operating segments have been aggregated in arriving at the reportable segments of the group.

There have also been no sales between reportable segments.

SEGMENT REVENUES AND RESULTS

	PHARMACEUTICALS		MEDICAL EQUIPMENT		VETERINARY EQUIPMENT		UNALLOCATED		TOTAL	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Revenues:										
External sales	5,377	6,290	3,503	5,105	490	338	-	-	9,370	11,733
Other income (excluding interest)	-	-	-	-	-	-	25	41	25	41
Total revenue									**9,395**	**11,774**
Results:										
Segment results	2,389	3,018	53	1,679	131	75			2,573	4,772
Unallocated							(1,480)	(1,387)	(1,480)	(1,387)
Profit before interest, income tax depreciation & amortisation	**2,389**	**3,018**	**53**	**1,679**	**131**	**75**	**(1,480)**	**(1,387)**	**1,093**	**3,385**
Depreciation & Amortisation	(207)	(149)	(19)	(8)	(3)	(3)	(89)	(74)	(318)	(234)
Profit before interest and tax	**2,182**	**2,869**	**34**	**1,671**	**128**	**72**	**(1,569)**	**(1,461)**	**775**	**3,151**
Net Interest							(134)	41	(134)	41
Profit before income tax expense							**(1,703)**	**(1,420)**	**641**	**3,192**
Income tax benefit/(expense)							234	(883)	234	(883)
Net profit for the period from continuing operations							**(1,469)**	**(2,303)**	**875**	**2,309**
Assets and Liabilities:										
Assets	13,982	13,145	5,049	4,751	852	807	2,677	1,576	22,560	20,279
Liabilities	-	-	-	-	-	-	6,736	4,550	6,736	4,550
Other Segment Information:										
Acquisition of segment assets	1,460	2,802	194	77	6	33	215	209	1,875	3,121

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 2014 $'000	%	REVENUE FROM EXTERNAL CUSTOMERS 2013 $'000	%
Australia	6,659	71.1	8,678	74.0
New Zealand	1,372	14.6	1,575	13.4
International	1,339	14.3	1,480	12.6
	9,370	100.0	11,733	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	267	-	267
Plant and equipment at cost	675	182	858
Goodwill at gross carrying amount	7,368	-	7,368
Other intangible assets at cost	8,378	7	8,385
Deferred tax asset	-	104	104
	16,668	293	16,982

INFORMATION ABOUT MAJOR CUSTOMERS

The Group's two largest customers who contributed 10% or more to the Group's revenue from external sales for both 2014 and 2013 are below:

TOP CUSTOMERS WITH > 10% SALES	2014 $'000	% TOTAL SALES	2013 $'000	% TOTAL SALES	SEGMENT
Customer A	1,035	11.0	1,724	14.7	Pharmaceutical/Medical Equipment
Customer B	1,004	10.7	1,293	11.0	Pharmaceutical/Medical Equipment
	2,039		4,103		

4. ITEMS INCLUDED IN PROFIT AND LOSS

	2014 $'000	2013 $'000
(a) Revenue and other income		
Revenue from sale of goods	9,370	11,733
Other operating lease rental income	-	8
Interest revenue - bank deposits	22	54
Other Income	25	33
Government grant income	-	0
	9,417	11,828
(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	(223)	(200)
Amortisation of non-current assets	(95)	(34)
Research & development costs immediately expensed	(51)	(41)
Operating lease rental expenses - minimum lease payments	(155)	(145)
Gain/(loss) on foreign currency transactions	(51)	41
Interest on bank loans	(125)	(10)
Interest on other loans/hire purchase arrangements	(31)	(3)
Employee benefit expense:		
Short-term employee benefits	(2,362)	(2,304)
Superannuation contributions	(305)	(288)
Equity settled share based payments	-	(6)
	(2,667)	(2,598)

5. INCOME TAXES

	2014 $'000	2013 $'000
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Current tax expense	(375)	482
Adjustments recognised in the current year in relation to the current tax of prior year	(334)	41
Deferred tax expense in relation to the deferred tax of prior year	10	(43)
Deferred tax expense relating to the origination and reversal of temporary differences	465	403
Total tax (benefit)/expense	(234)	883

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	641	3,192
Income tax calculated at 30%	192	958
Share based payment expense	-	2
Research & development expense	(107)	(110)
Effect of expenses that are not deductible in determining taxable profit	5	1
Adjustments recognised in the current year in relation to the current tax of prior year	(334)	41
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	10	(43)
Income tax expense recognised in the Statement of Comprehensive Income	(234)	883

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 (2013: $nil)

(c) Current tax assets		
Income tax receivable	512	297
(d) Deferred tax asset (non-current)		
Tax losses	104	61
(e) Deferred tax liabilities		
Temporary differences (i)	(1,414)	(896)

Taxable/Deductible temporary differences arise from the following:

2014	OPENING BALANCE $'000	CHARGED TO INCOME $'000	CLOSING BALANCE $'000
Deferred tax assets/(liabilities):			
Accrued expenses	21	30	51
Deferred grant revenue	95	-	95
Other Assets	(3)	1	(2)
Other Intangibles	(1,173)	(506)	(1,679)
Property, Plant & Equipment	23	(3)	20
Provisions	120	(25)	95
Tax losses	61	43	104
Unrealised foreign exchange losses	21	(16)	5
	(835)	(475)	(1,310)

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	-	23
Provisions	83	37	120
Tax losses	-	61	61
Unrealised foreign exchange losses	(46)	67	21
	(475)	(360)	(835)

The group has recognised a deferred tax asset of $104,000 in relation to carry forward losses of its Medical Developments UK Limited subsidiary. The tax asset has been recognised on the basis that taxable profits are forecasted during the FY16-FY19 years that will result in utilisation of the unused tax losses.

(i) The June 2013 comparative for Deferred Tax Liabilities balances has been re-stated by $26,000 in order to correct a prior period error. The error related to a consolidation elimination adjustment for unrealised profits on the sale of inventories.

6. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2014 $'000	2013 $'000
Short-tern employee benefits	642	670
Post employee benefits	58	55
Long term employee benefits	6	2
Share based payments	-	6
Termination benefits	10	16
	716	749

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.

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	
				2014	2013
1	5 September 2011	$0.49	$96,501	-	-
2	5 September 2011	$0.97	$12,721	-	$6,119
3	5 September 2011	$1.46	$631	-	$353
Total			**$109,853**	**-**	**$6,472**

(B) MOVEMENTS IN SHARE OPTIONS DURING THE YEAR

In the year ended 30 June 2014 there were no options granted, vested or exercised under the LTIP (2013: Tranches 2 and 3 were vested and exercised).

(C) SHARE OPTIONS EXERCISED DURING THE YEAR

There were no options exercised during the year. The following options were exercised during the year ended 30 June 2013:

2013 LTIP	GRANT DATE	NUMBER EXCERCISED	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
		961351		

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, which 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).

8. REMUNERATION OF AUDITORS

	2014 $	2013 $
Auditor of the parent entity		
Audit or review of the financial report	74,100	71,955
Other services	17,500	14,000
	91,600	85,955

The auditor of the entity is Deloitte Touche Tohmatsu.

The other services relate to taxation services.

9. CURRENT RECEIVABLES

	2014 $'000	2013 $'000
Trade receivables	1,770	2,230
Allowance for doubtful debts	-	-
Other debtors	-	6
GST recoverable	38	106
	1,808	2,342

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, $640,615 (2013: $1,013,000) is due from the Group's two largest customers (Refer to Note 3).

Included in the trade receivable balance are debtors with a carrying amount of $135,616 (2013: $274,000) 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

	2014 $'000	2013 $'000
60 - 90 days	22	31
90 - 120 days	114	243
Total	136	274

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

	2014 $'000	2013 $'000
Raw materials:		
At cost	623	603
Work in progress:		
At cost	194	318
Finished goods:		
At cost	647	436
Provisions for obsolesence	(18)	-
	1,446	1,357[(i)]

(i) The June 2013 comparative for Inventories, have been re-stated by $41,000, in order to correct a prior period error. The error related to a consolidation elimination adjustment for unrealised profits on the sale of inventories.

11. OTHER CURRENT ASSETS

	2014 $'000	2013 $'000
Prepayments	138	118
Other recievables	15	-
	153	118

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	
			30/06/14	30/06/13
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 2012	285	2,289	2,574
Additions	230	312	542
Write off of PP&E	-	(1)	(1)
Balance at 1 July 2013	515	2,600	3,115
Additions	76	247	323
Write off of PP&E	(36)	23	(13)
Balance at 30 June 2014	555	2,870	3,425
Accumulated depreciation			
Balance at 1 July 2012	(159)	(1,731)	(1,890)
Depreciation expense	(59)	(141)	(200)
Disposals	-	1	1
Balance at 1 July 2013	(218)	(1,871)	(2,089)
Depreciation expense	(71)	(152)	(223)
Write off of PP&E	1	11	12
Balance at 30 June 2014	(288)	(2,012)	(2,300)
Net book value			
As at 30 June 2013	297	729	1,026
As at 30 June 2014	267	858	1,125

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

	2014	2013
	$'000	$'000
Property, Plant & Equipment	(223)	(200)

14. GOODWILL

	2014 $'000	2013 $'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 (2013: $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:

	2014 $'000	2013 $'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.

Recoverable amount testing has been based on EBITDA growth rates for years 2-5 of:

Pharmaceuticals:	7.5% based on expansion into new markets
Medical Devices:	12.5% based on expansion into new markets
Veterinary equipment:	7.5% based on expansion into new markets

A terminal value after 5 years based on a long term growth rate of 2.5%, and a pre-tax discount rate of 15.09% per annum (2013: 13.62% 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:

- EBITDA 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

2014	DEVELOPMENT	PATENTS & TRADEMARKS	DEFERRED REGISTRATION COSTS	TOTAL
	$'000	$'000	$'000	$'000
Gross carrying amount				
Balance at 1 July 2012	483	291	3,980	4,754
Additions	415	74	2,090	2,579
Write off of Intangibles	-	-	-	-
Balance at 1 July 2013	898	365	6,070	7,333
Additions	640	36	876	1,552
Write off of Intangibles	-	(18)	-	(18)
Balance at 30 June 2014	1,538	383	6,946	8,867
Accumulated amortisation				
Balance at 1 July 2012	-	(73)	(284)	(357)
Write back amortisation	-	-	-	-
Amortisation expense	-	(31)	(3)	(34)
Balance at 1 July 2013	-	(104)	(287)	(391)
Write back amortisation	-	4	-	4
Amortisation expense	(48)	(36)	(11)	(95)
Balance at 30 June 2014	(48)	(136)	(298)	(482)
Net book value				
As at 30 June 2013	898	261	5,783	6,942
As at 30 June 2014	1,490	247	6,648	8,385

The amortisation charge for the year of $95,000 (2013: $34,000) has been included in administration expenses. For an explanation of amortisation periods refer Note 1(l).

16. CURRENT TRADE AND OTHER PAYABLES

	2014	2013
	$'000	$'000
Trade payables (i)	746	1,238
Accrued expenses	316	336
Employee benefits payable	28	1
PAYG witholding tax payable	2	55
	1,092	1,630

(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

	2014	2013
	$'000	$'000
Secured - at amortised cost		
Hire Purchase (i)	147	69
Hire Purchase (ii)	66	-
Bank Bill (iii)	3,000	1,200
Other (iv)	449	175
	3,662	1,444
Current	3,089	1,356
Non-current	573	88
	3,662	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. During the current year the commercial loan agreement was converted into a Hire Purchase Agreement. The current weighted-average effective interest rate on the loan is 7.70% p.a. The agreement is secured by a registered charge over the equipment financed.

(ii) On 4 September 2013 the Group entered into a Hire Purchase Agreement in relation to plant and equipment. The term is 5 years and the current weighted average effective interest rate on the loan is 6.97%. The agreement is secured by a registered charge over the equipment financed.

(iii) 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 2014, $3,000,000 has been drawn upon and $950,000 remains unused. The current weighted average effective interest rate on the bills is 4.78% p.a. The Bank Bill is secured by a registered charge over all of the Group's assets. Also refer to note 29 in relation to the refinancing of the bank bill facility post 30 June 2014.

(iv) 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 Penthrox®. 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 2014, the stage 1a and 1b are complete. 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.

(v) The Group has an overdraft facility of $200,000. As at 30 June 2014, this remains unused.

18. CURRENT PROVISIONS

	2014 $'000	2013 $'000
Employee benefits	180	201

19. NON-CURRENT PROVISIONS

	2014 $'000	2013 $'000
Employee benefits	70	61

20. OTHER NON-CURRENT LIABILITIES

	2014 $'000	2013 $'000
Unearned government grant income	318	318

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

21. ISSUED CAPITAL

	2014 No.	2014 $'000	2013 No.	2013 $'000
Fully paid ordinary shares				
Balance at beginning of financial year	57,420,703	10,559	55,689,436	9,354
Shares Issued - CEO LTIP	-	-	961,351	128
Shares Issued - Dividends Reinvestment Plan	304,440	387	769,916	1,077
Balance at end of financial year	57,725,143	10,946	57,420,703	10,559

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 ended 30 June 2013.

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

22. RESERVES

	2014 $'000	2013 $'000
(a) Employee equity-settled benefits reserve		
Balance at beginning of year	-	103
Transfer to retained earnings	-	(109)
Share-based payment recognised	-	6
Balance at end of year	-	-

The above equity-settled employee benefits reserve related 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.

	2014 $'000	2013 $'000
(b) Foreign currency translation reserve		
Balance at beginning of year	(13)	-
Exchange differences arising on translating the foreign operations	(20)	(13)
Balance at end of year	(33)	(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

	2014 $'000	2013 $'000
Balance at beginning of financial year	5,183	6,712
Transfer from Reserves	-	109
Dividends paid	(760)	(2,309)
Dividends Reinvested	(387)	(1,077)
Shares subscribed for under CEO LTIP	-	(546)
Net profit attributable to members	875	2,309
Correction of prior period ended	-	(15)
Balance at end of financial year	4,911	5,183

The June 2013 comparative for Retained Earnings has been re-stated by $15,000 in order to correct a prior period error. The error related to a consolidation elimination adjustment for unrealised profits on the sale of inventories.

24. EARNINGS PER SHARE

	2014 CENTS PER SHARE	2013 CENTS PER SHARE
Basic earnings per share	1.5	4.1
Diluted earnings per share	1.5	4.1

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:

	2014 $'000	2013 $'000
Earnings	875	2,309

	2013 No.	2012 No.
Weighted average number of ordinary shares	57,639,233	56,636,759

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.

25. DIVIDENDS

The directors declared a fully franked final dividend of 2 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2013.

As a result of the declared dividends paid during the year, the company issued 304,440 shares ($387,000) under its Dividends Reinvestment Plan and paid $760,000 in dividends.

There were no dividends declared for the full year ended 30 June 2014. All dividends are accrued for when declared.

	2014		2013	
	CENTS PER SHARE	$'000	CENTS PER SHARE	$'000
Recognised amounts				
Fully paid ordinary shares				
Final dividend franked to 30%	2.0	1,148	3.0	1,671
Interim dividend franked to 30%	-	-	3.0	1,715
	2.0	1,148	6.0	3,386
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend franked to 30%	-	-	2.0	1,148
		-		1,148

	2014 $'000	2013 $'000
Adjusted franking account balance	529	1,496

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.

	2014 $'000	2013 $'000
Non cancellable operating lease payments:		
Not longer than 1 year	186	181
Longer than 1 year and not longer than 5 years	99	262
	285	443

27. COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments total $58,192 and relate to purpose built plant and equipment on order at 30 June 2014.

28. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COMPENSATION

A director, Mr D. Williams, is a director of IDT Australia Limited. In the prior financial year Medical Developments International Limited obtained services from IDT Australia Limited on normal commercial terms and conditions and at normal arm's length rates. These services totalled $198,807 for the 30 June 2013 year.

There were no related party transactions during the 2014 financial year.

29. SUBSEQUENT EVENTS

In August 2014, the Company has renegotiated its Bank Bill Facility and related financial covenants. The initial facility was due to expire in May 2015 which is the reason the entire loan was classified as a current liability at 30 June 2014. The refinanced facility remains at $3.950m and now extends through to August 2016.

Other than the above, there has not been any other 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 CONSOLIDATED STATEMENT OF CASH FLOWS

	2014 $'000	2013 $'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	1,659	768
	1,659	768
(b) Reconciliation of profit for the period to net cash flows from operating activities		
Profit for the period	875	2,309
Interest received	(22)	(78)
Depreciation and amortisation of non-current assets	318	234
Net foreign exchange (gain)/loss	(18)	(8)
Loss on disposal of property, plant and equipment	14	-
Equity settled share based payment expense	-	6
Taxes paid in equity settled share based payment	-	(546)
Decrease in current tax receivable	(215)	(636)
Increase in deferred tax liability	518	386
Movements in working capital		
Decrease/(Increase) in assets:		
Current receivables	534	(294)
Current inventories	(89)	(331)
Other current assets	(35)	(29)
Increase/(decrease) in liabilities:		
Current payables	(572)	(22)
Current provisions	(21)	(34)
Non-current provisions	9	20
Net cash from operating activities	1,295	977
(c) Financing facilities		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount unused	200	200
	200	200
Bank bill facility with a 90 day roll over period:		
Amount used	3,000	1,200
Amount unused	950	1,350
	3,950	2,550
Details of further financing facilities are disclosed in Note 17 and Note 29		
(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 $387,000 (2013: $1,077,000).		

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 issued 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 2014 is 13% (see below).

	2014 $'000	2013 $'000
Debt (i)	3,662	1,444
Cash and bank balances	(1,659)	(768)
Net debt / (cash)	2,003	676
Equity (ii)	15,824	15,744
Net debt to equity ratio	13%	4%

(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 2.5 times and the operating leverage ratio must be no higher than 1.75 times. Monitoring of said covenants is performed monthly by management and signed off quarterly by the board.

The group identified the likely breaches of the above mentioned debt cover and operating leverage ratios at 30 June 2014 and obtained a waiver from the Bank from this being considered an 'Event of Default'. The Group has identified the reasons for not meeting certain covenants and has renegotiated its covenant obligations for forthcoming periods.

(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.

(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.

(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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
USD	350	522	370	446
GBP	35	8	-	-
NZD	-	-	95	4
EUR	-	2	-	-
CND	-	18	-	-
	385	550	465	450

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	
	2014 $'000	2013 $'000
Profit or Loss	(2)	8

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 2014 and 30 June 2013.

		VARIABLE INTEREST RATE MATURITY				
2014	AVERAGE INTEREST RATE %	LESS THAN 1 YEAR $'000	1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial assets						
Cash	1.29	1,659	-	-	-	1,659
Receivables	-	-	-	-	1,808	1,808
		1,659	-	-	1,808	3,467
Financial liabilities						
Payables	-	-	-	-	1,092	1,092
Borrowings	5.28	3,089	573	-	-	3,662
		3,089	573	-	1,092	4,754

2013	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE MATURITY: LESS THAN 1 YEAR $'000	1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'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

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

	INTEREST RATE RISK TABLE	
	2014 $'000	2013 $'000
Profit or Loss	(10)	(3)

(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
2014					
Payables	-	1,092	-	-	1,092
Borrowings	5.28	3,089	573	-	3,662
		4,181	573	-	4,754
2013					
Payables	-	1,630	-	-	1,630
Borrowings	5.64	1,356	88	-	1,444
		2,986	88	-	3,074

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 2014 $'000	30 JUNE 2013 $'000
Assets		
Current Assets	6,057	5,194
Non-Current Assets	16,871	15,335
Total Assets	22,928	20,529
Liabilities		
Current Liabilities	4,288	3,137
Non-Current Liabilities	2,399	1,389
Total Liabilities	6,687	4,526
Equity		
Issued capital	10,946	10,560
Reserves	-	-
Retained earnings	5,295	5,443
Total Equity	16,241	16,003

FINANCIAL PERFORMANCE	2014 $'000	2013 $'000
Profit for the year	999	2,554
Other comprehensive income	-	-
Total comprehesive income	999	2,554

The commitments of the parent are the same as those of the overall consolidated group.

ADDITIONAL STOCK EXCHANGE INFORMATION

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2014

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

57,725,143 fully paid ordinary shares held by 1033 individual shareholders. All issued ordinary shares carry one vote per share.

Distribution of holders of equity securities
Fully paid ordinary shares

1 – 1,000	156
1,001 – 5,000	311
5,001 – 10,000	194
10,001 – 100,000	321
100,001 and over	51
	1033
Holding less than a marketable parcel	**53**

SUBSTANTIAL SHAREHOLDERS	NUMBER	%
MR DAVID JOHN WILLIAMS	30,370,890	52.61

TWENTY LARGEST HOLDERS OF EQUITY SECURITIES	NUMBER	%
MR DAVID JOHN WILLIAMS	30,370,890	52.61
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,516,838	2.63
DR RUSSELL KAY HANCOCK	1,400,727	2.43
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	1,216,746	2.11
CITICORP NOMINEES PTY LIMITED	978,609	1.70
MRS ERICA MARGARET STRONG	725,000	1.26
MR JOHN SHARMAN <NOMINEE A/C>	609,230	1.06
MR RAYMOND WILLIAM WALTER + MR ALEXANDER SCOTT HAGAN <WALTER FAMILY SUPER FUND A/C>	499,190	0.86
MR ALISTAIR DAVID STRONG	465,000	0.81
MULLACAM PTY LTD <MCCALLUM FAMILY S/FUND A/C>	426,710	0.74
J P MORGAN NOMINEES AUSTRALIA LIMITED	426,553	0.74
IMAJ PTY LTD <SUPER FUND A/C>	400,000	0.69
MR MICHAEL GERARD SUGERMAN	375,550	0.65
PNSF PTY LTD <PRIME NUMBERS S/F A/C>	352,074	0.61
MR ANTHONY COULEPIS + MRS MARGARITA COULEPIS <COULEPIS FAMILY S/F A/C>	346,424	0.60
HOLLYWIND PTY LTD <LOLATGIS PENSION FUND A/C>	247,000	0.43
SOM INVESTMENTS PTY LTD <SOM SUPERANNUATION FUND A/C>	235,977	0.41
MR ALAN ROSS BARRY	223,000	0.39
DR HARRY FRANK OXER	207,013	0.36
MR CHARLES FARQUHARSON + MRS JAYNE FRANKLIN FARQUHARSON <C & J FARQUHARSON S/F A/C	200,000	0.35

CORPORATE DIRECTORY

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

DIRECTORS

David Williams

Allan McCallum

Harry Oxer

Max Johnston

Leon Hoare

COMPANY SECRETARY

Mr Mark Edwards

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

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550 Bourke Street

Melbourne

Victoria 3000

BANK

Westpac Banking Corporation

360 Collins Street

Melbourne

Victoria 3000

DELIVERING EMERGENCY MEDICAL SOLUTIONS DEDICATED TO IMPROVING PATIENT OUTCOMES