



August 27<sup>th</sup>, 2009

**Full Year Report**

Pursuant to listing rule 4.3A, please find following Medical Developments International's audited Financial Report for the year ended 30 June 2009 and associated results announcement.

Jonathan Kadish  
Company Secretary

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## Poised for Growth in the Eastern Bloc, Middle East and New Zealand

Medical Developments International Ltd. (ASX: MVP) has reported a NPAT of \$810K on turnover of \$8.7M for the year ended 30 June 2009. The result was impacted by a one-off provision of \$434K relating to a restriction of registration conditions for a FY08 sale into Saudi Arabia and the subsequent write back of the prior year provision for marketing spend of \$197K associated with the sale.

Normalised NPAT, excluding the one off provision and write back of the provision for marketing spend, is \$976K representing a 9.5% increase on FY08.

At Balance Sheet date the Company had no bank debt and a cash balance of \$257K.

	Year ended 30 June 2009 \$'000
Revenue from sale of goods	8,727
Net Profit after tax	810
Basic EPS	1.5c
Net tangible asset value per share	5.8c

### Share Buy-Back

MVP announced today that it intends to implement a share buy-back in order to best utilise its strong cash flows to the benefit of all shareholders. The Company still maintains funding facilities, so the buy-back will not affect its ability to support international marketing and registration activities.

The on-market buy back will commence on the 21<sup>st</sup> September 2009 and continue until the 4<sup>th</sup> November when the Company intends to ask its Shareholders to pass a general resolution to allow it to buy back shares in excess of its 10/12 limit.

During the financial year the Company executed a publicly announced share buy-back programme pursuant to which 4,865,843 shares were purchased. All MVP shares purchased under this programme were cancelled.

## Review of Operations

### Pentrox: Australia

Pentrox sales continue to be supported by the strong business MVP has developed in Australia, in Ambulance, Military, Dentistry and Aesthetic surgery. Growth in FY10 is expected to come from consolidation of this business, penetration into Hospitals, and a decision from the Pharmaceutical Benefits Authority Committee for Government reimbursement of Pentrox in General Practice.

MVP continues to pursue growth into new settings in Australia. A new commercial partnership has recently been established in Australia with an experienced pharmaceutical sales and marketing partner with a long term focus in pain management. The partnership has an objective of growth of Pentrox into Hospitals and General Practice. The partner has committed a

considerable sales force and marketing spend to facilitate this growth. When Pentrox is made available to General Practitioners for use in the Emergency Doctor's Bag, the partner will commit further resource.

#### **Pentrox: Export**

The Company submitted for registration in four new countries during the course of FY09, bringing the total number of countries considering registration to fourteen. Pentrox sales showed the greatest growth in NZ and in the Middle East, in ambulance and hospitals.

MVP secured registration and its first sales of Pentrox in Eastern Europe in late FY09. More recently MVP also received confirmation that Pentrox has been approved in three other Eastern European Countries. Sales expectations for FY10 are modest for these four countries to allow for the long process of approval for Hospital and Ambulance formularies.

#### **Pentrox: Veterinary Use**

Following the announcement of marketing approval from the FDA for veterinary use of Methoxyflurane in the US (under the trade name: **Anafane<sup>®</sup>**), MVP achieved its first sales in late FY09. Until this FDA approval was granted, the Company had been selling Methoxyflurane in the US on special access basis to major US research institutions for veterinary use. This market will now be pursued officially and more vigorously.

To help re-introduce Methoxyflurane into the US Veterinary market, MVP has selected a leading US distributor of animal health products, as its distributor. MVP plans to conduct further studies to evaluate use of Methoxyflurane in laboratory animals within the US and Australia in FY10. These studies are aimed at increasing the use of Methoxyflurane as a post operative analgesic in the veterinary setting.

#### **Medical Devices**

Sales in the Devices division continued to be solid in FY09 underpinned by a strong market position in Australia and NZ. In FY09 the company successfully negotiated a three year extension to an existing contract for face masks, peak flow meters and unique Asthma space chambers.

#### **About Medical Developments International Limited**

MVP is a leader in emergency pain relief and respiratory products. The Company manufactures a fast acting pre-hospital and emergency pain relief product, Pentrox. Pentrox is used in all Australian Ambulance Services, the Australian Defence Forces, Sports Medicine and for analgesia during short surgical procedures in Dentistry and Aesthetic Surgery.

#### Further Information:

Mr Chris Rossidis  
Chief Executive Officer  
+613 9547 1888

Mr David Williams  
Chairman  
+61 414 383 593

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**Full-Year Report (Appendix 4E)**

Financial Year Ended 30 June 2009

(Previous corresponding period: financial year ended 30 June 2008)

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## Results For Announcement To The Market

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

		<b>Percentage Change</b>		<b>Amount \$'000</b>
Revenue from ordinary activities	Down	5.3%	to	8,727
Profit after tax from operating activities attributable to members	Down	9.1%	to	810
Net Profit after tax attributable to members	Down	9.1%	to	810

No final dividend per ordinary share has been declared (financial year ended 30 June 2008: no final dividend declared).

There is no Dividend Reinvestment Plan currently in operation.

Basic earnings per share for the year ended 30 June 2009 was 1.5cents (30 June 2008: 1.6cents)

Net tangible asset backing per ordinary share at 30 June 2009 was 5.8 cents (30 June 2008: 6.0cents)

Brief explanation of the figures above

Refer to the review of operations preceding.

Annual General Meeting

The Annual General Meeting will be held as follows:

Place: Stamford Plaza Melbourne  
111 Little Collins Street  
Melbourne Victoria 3000

Date: 4<sup>th</sup> November, 2009

Time: 10.00am

## Annual Financial Report for the Financial Year Ended 30 June 2009

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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 his or her 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;
- 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 I Kirkwood & Mr M Van Ryn); and
- a Remuneration and Nominations Committee (Mr D Williams & Mr A McCallum).

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

### *Share trading*

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

## **ASX Corporate Governance Best Practice Recommendations**

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 five of the six Board members are independent under the definition of the council. Furthermore, while the Chairman, Mr Williams is not considered independent under the Council definition and thus recommendation 2.2 is not followed, the Board does not believe that Mr Williams being a substantial shareholder has had or will have any adverse impact on the conduct of MDI's affairs or the representation of the interests of other shareholders. Furthermore, the roles of Chairman and CEO are not exercised by the same individual.

To further ensure directors can fulfil their obligations, the Board has adopted a policy, contained in the company's corporate governance manual that allows directors to take independent professional advice, at the expense of the company.

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

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

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

### **Principle 3: Promote ethical and responsible decision-making**

The Board actively promotes ethical and responsible decision-making. It promotes an appropriate code of conduct for directors and key executives but does not believe given the size of the company and the resources available to it, that a formalised policy on the responsibility and accountability of individuals for reporting and investigating reports of unethical practices is necessary. As a result, the part of recommendation 3.1 requiring disclosure of a code of conduct or summary thereof is not followed.

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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.

**Principle 4: Safeguard integrity in financial reporting**

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

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

**Principle 5: Make timely and balanced disclosures**

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

**Principle 6: Respect the rights of shareholders**

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

- A half-yearly report containing summarised financial information and a review of operations
- An annual report with detailed financial information and review of the operations of the company and future outlook
- Updates on operations and developments lodged with the ASX
- A comprehensive website carrying latest news and containing an investor relations section which includes corporate governance information and an archive of periodic reports and ASX releases

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

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**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 Chief Financial Officer 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.

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## 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 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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 20 years experience in the investment banking sector. Mr Williams is Chairman of the Remuneration and Nominations Committee.

**Dr A Coulepis, B.Sc(Hons), PhD, MASM**

**Non-Executive Director**

Dr Coulepis is presently the CEO of Australian Stem Cell HealthCare Pty Ltd and Cellsense Pty Ltd and a non-Executive Director of Stirling Resources Limited, formally Alexander Securities Ltd. In addition, Dr Coulepis is the Chairman of HealthCare Villages Ltd and the strategic industry advisor of Box Hill Institute. Dr. Coulepis has over 30 years of experience in the biotech, pharmaceutical, life sciences, device and diagnostics industries, and was the founding CEO and Executive Director of AusBiotech, Australia's Biotechnology Industry Organisation.

**Mr I M C Kirkwood, MA Hons (Oxon) FCPA, FFTP, CA, MAICD**

**Non-Executive Director**

Chartered Accountant, Non-Executive Director of Vision Group Holdings Ltd. Has over 25 years financial and operational experience across a range of industries. Chairman of the Audit & Risk Committee.

**Mr A D McCallum, Dip.Ag Science, FAICD**

**Non-Executive Director**

Chairman of Tassal Group Ltd, and Non-Executive Director of Incitec-Pivot Ltd. Mr McCallum has over 30 years experience in the agricultural sector including extensive experience in biotechnology companies. Member of the Remuneration and Nominations Committee.

**Dr H F Oxeer, ASM,**

**MA, MB.BChir., MRCS.LRCP, DA, FFARCS, FRCA, FFARACS, FANZCA, FACAP, DipDHM**

**Non-Executive Director**

Dr Oxeer is presently Clinical Senior Lecturer in the School of Medicine at the University of Western Australia, and Medical Consultant to the St John Ambulance Western Australia Ambulance Service. He has been involved in ambulance and pain management for over 30 years through St. John Ambulance and various committees, and is a past Chairman of the National Australian Resuscitation Council.

**Mr M Van Ryn, B.Bus**

**Non-Executive Director**

Mr Van Ryn is the General Manager Marketing and Sales for Bega Cheese. He is also Chairman of Probiotec Ltd. Mr Van Ryn has over 30 years experience in the direct management of food companies and has extensive experience in launching and marketing products in international markets. Member of the Audit & Risk Committee.

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

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**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:

<b>Name:</b>	<b>Company:</b>	<b>Period of Directship:</b>
David Williams	Clever Communications Australia Ltd	Since 2007
Anthony Coulepus	Stirling Resources Limited, (formally Alexander Securities Ltd)	2006 - Present
Iain Kirkwood	Vision Group Holdings Ltd	Since 2006
	Metabolic Pharmaceuticals Ltd	2008 - 2009
Allan McCallum	Tassal Group Ltd	Since 2006
	Incitec-Pivot Ltd	Since 2006
Maurice Van Ryn	Probiotec Ltd	Since 2006
	Tassal Group Ltd	2006 - 2007
	Freedom Nutritional Products Ltd	2006

**Company Secretary**

Mr J Kadish, CA(SA)

Chartered Accountant. Mr Kadish is also the Chief Financial Officer 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**

A detailed review of the operations of the company during the financial year and the results of these operations is set out in the accompanying results announcement.

**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**

There has not been any matter or circumstance that has arisen since the end of the financial year 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.

**Future developments**

Disclosure of information regarding likely developments in the operations of the company in future financial years and the expected results of those operations, beyond that disclosed above is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

**Dividends**

No interim or final dividend has been declared or is payable in respect of the financial year ended 30 June 2009.

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**Share options**

No share options were granted to directors or senior management during or since the end of the financial year.

No shares were issued during the financial year as a result of exercise of an option.

Further details concerning share options are disclosed in note 7 to the financial statements.

**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, 11 board meetings, two audit and risk committee meetings and three remuneration committee meetings were held.

	Board of Directors		Audit & Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
D.J. Williams	11	11	-	-	3	3
A. Coulepis	11	11	-	-	-	-
I.M.C. Kirkwood	11	11	2	2	-	-
A.D. McCallum	11	10	-	-	3	3
H.F. Oxe	11	10	-	-	-	-
M. Van Ryn	11	9	2	1	-	-

**Directors' shareholdings**

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

	Fully paid shares
D.J. Williams	23,882,557
A. Coulepis	260,000
I.M.C. Kirkwood	100,000
A.D. McCallum	440,095
H.F. Oxe	97,000
M. Van Ryn	920,898

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## Remuneration report

### *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 company's two company executives and reviews the compensation of the non-executive directors on an annual basis. Changes are approved by the board as a whole.

### *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 EBITDA (earnings before interest, tax, depreciation and amortisation), used to directly link company earnings and cash bonuses, new registrations overseas, and other operational measures, the achievement of which provides the basis for future growth and profitability.

In order to explicitly link incentives to long term shareholder wealth, the board has granted a contractual right to share options to Mr Rossidis under the Chief Executive Share Option Plan, and for all options the exercise price is greater than the share price at financial year end.

As at the date of this report, the remuneration committee has not yet formalised the bonus and option grant scheme to be applied to the 2010 financial year.

The Board currently has no policy in respect of key management personnel limiting their exposure to risk in relation to securities.

The table below shows company earnings for this year and the previous four financial years. As can be seen, the company has been consistently profitable.

Years	2005	2006	2007	2008	2009
	\$'000	\$'000	\$'000	\$'000	\$'000
NPAT	497	797	1,207	891	810

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### Share Buy-Back

During the current financial year, the company instituted a share buy-back scheme and purchased 4,865,843 shares for \$827,193. In the previous year the company instituted a share buy-back scheme and purchased 756,506 shares for \$173,996.

The following table shows the company's share prices over the same period. Unfortunately, the company's share price has not improved, and this is reflected in the status of options issued to management, which have either lapsed unexercised or are currently out of the money.

	2005	2006	2007	2008	2009
Share price - start	0.88	0.84	0.305	0.58	0.34
Share price - end	0.84	0.305	0.58	0.34	0.18

#### *Director and executive details*

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

- D.J. Williams (Chairman, Non-executive)
- A. Coulepis (Non-executive)
- H. F. Oxe r (Non-executive)
- I.M.C. Kirkwood (Non-executive)
- A.D. McCallum (Non-executive)
- M. Van Ryn (Non-executive)

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

- C. Rossidis (Chief Executive Officer)
- J. Kadish (Chief Financial Officer & Company Secretary)

#### *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 – share options granted under the Chief Executive Share Option Plan and Senior Manager Share Option Plan.

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

2009	Short-term employee benefits			Post	Share-based payments		Total
	Salary &	Bonus	Non-	Employment	Fully paid	Options	
	Fees	\$	monetary	Super-annuation	shares	\$	\$
<i>Directors</i>							
D.J. Williams	36,697	-	-	3,303	-	-	40,000
A. Coulepis	27,523	-	-	2,477	-	-	30,000
I.M.C. Kirkwood	27,523	-	-	2,477	-	-	30,000
A.D. McCallum	27,523	-	-	2,477	-	-	30,000
H. F. Oxe	54,000	-	-	-	-	-	54,000
M. Van Ryn	-	-	-	30,000	-	-	30,000
	173,266	-	-	40,734	-	-	214,000

The following table discloses the remuneration of the two highest remunerated executives of the company:

2009	Short-term employee benefits			Post	Share-based payments		Total
	Salary &	Bonus	Non-	Employment	Fully paid	Options	
	Fees	\$	monetary	Super-annuation	shares	\$	\$
<i>Executives</i>							
C. Rossidis	165,138	17,835	-	16,468	-	32,621	232,062
J. Kadish	137,615	-	-	12,385	-	-	150,000
	302,753	17,835	-	28,853	-	32,621	382,062

*Note: Only two people meet the definition of executive for the purposes of this report.*

14% of C. Rossidis remuneration consists of share based payment expenses relating to his options. No other key management personnel have options.

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

2008	Short-term employee benefits			Post	Share-based payments		Total
	Salary &	Bonus	Non-	Employment	Fully paid	Options	
	Fees	\$	monetary	Super-annuation	shares	\$	\$
<i>Directors</i>							
D.J. Williams	36,697	-	-	3,303	-	-	40,000
A. Coulepis	27,522	-	-	2,478	-	-	30,000
I.M.C. Kirkwood	27,522	-	-	2,478	-	-	30,000
A.D. McCallum	27,522	-	-	2,478	-	-	30,000
H. F. Oxe	54,000	-	-	-	-	-	54,000
M. Van Ryn	-	-	-	30,000	-	-	30,000
	173,263	-	-	40,737	-	-	214,000

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The following table discloses the remuneration of the three highest remunerated executives of the company:

2008	Short-term employee benefits			Post Employment	Share-based payments		Total
	Salary & Fees	Bonus	Non-monetary	Super-annuation	Fully paid shares	Options	
	\$	\$	\$	\$	\$	\$	\$
<i>Executives</i>							
C. Rossidis	164,518	7,500	-	15,482	-	73,541	261,041
J.D. Payling	110,884	11,250	-	10,992	-	(6,287)	126,839
J. Kadish	35,462	-	-	3,192	-	-	38,654
	<u>310,864</u>	<u>18,750</u>	<u>-</u>	<u>29,666</u>	<u>-</u>	<u>67,254</u>	<u>426,534</u>

Note: J.D. Payling resigned on 31 March 2008, J. Kadish was appointed 31 March 2008

*Elements of remuneration related to performance*

Fees paid to non-executive directors are not directly tied to performance. Salaries paid to executives (C. Rossidis and J. Kadish) 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 – financial year ended 30 June 2009

For the period ended 30 June 2009 Mr Rossidis is eligible for a cash bonus of up to 60% of his base remuneration. The performance conditions are:

- EBITDA (earnings before interest, tax, depreciation and amortisation) equal to or greater than the Board approved budget – chosen to reward short/medium term financial performance.
- Sales in countries other than the Gulf Co-operation Countries, Australia and New Zealand – chosen to reward actions that will generate long-term financial performance.

Performance against these conditions will be assessed by the Board's remuneration committee using audited financials and sales reports by geographic region. Based upon a comparison of actual results and the budget, the committee will determine the amount of the bonus.

The determination and approval of any potential bonuses is at the discretion of the Board. No bonuses have been accrued in respect of the financial year ended 30 June 2009 as, at the date of this report, the remuneration committee has not met to consider these incentives and, as a result, a reliable estimation of any bonuses cannot be made.

As at the date of this report, the remuneration committee had not yet finalised the short term incentive scheme to be applied to the 2010 financial year.

Short-term incentives – financial year ended 30 June 2008

For the period ended 30 June 2008 Mr Rossidis was eligible for a cash bonus of up to 60% of his base remuneration. The performance conditions are:

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- Net Profit after tax equal to or greater than the Board approved budget – chosen to reward short/medium term financial performance.
- Sales in countries other than the Gulf Co-operation Countries, Australia and New Zealand – chosen to reward actions that will generate long-term financial performance.

Performance against these conditions was assessed by the Board's remuneration committee using audited financials and sales reports by geographic region. Based upon a comparison of actual results and the budget, the committee determined that Mr Rossidis be paid 18% of his eligible bonus. 82% of his eligible bonus was forfeited as not all performance criteria were met.

Long-term incentives

Mr Rossidis was granted on 16 January 2007 a contractual right to options for nil consideration as part of the CEO Share Option Plan (CEOSOP). These options will be issued subject to continuing employment with the company and the allotment of such options complying with ASX Listing Rules and the Corporations Act 2001. The table below shows the share-based payment arrangements that were in existence during the year as part of the CEOSOP:

Options series	Number	Vesting date	Expiry date	Exercise price \$	Fair value at grant date \$
1. Issued 22 August 2007	250,000	22 August 2007	22 August 2008	0.85	0.08
2. Issued 23 October 2007	250,000	23 October 2007	30 August 2008	1.00	0.06
3. Issued 23 October 2007	250,000	23 October 2007	30 August 2009	1.25	0.07
4. Issued 30 August 2008	500,000	30 August 2008	30 August 2010	1.50	0.11
5. Not yet issued	500,000	30 August 2009	30 August 2011	1.75	0.14

There is no further service or performance criteria that need to be met in relation to options granted under series 1-4 before the beneficial interest vests with Mr Rossidis. With respect to options series 5, Mr Rossidis will only be entitled to the beneficial interest under these options if he continues to be employed at the time they are issued, expected to be 30 August 2009.

The aggregate fair value of options granted is \$181,304. The share based payment expense for the financial year ending 30 June 2009 of \$32,621, disclosed above, represents approximately 14% of Mr Rossidis' total remuneration.

Each share option converts into one ordinary share of Medical Developments International Limited on exercise. No amounts are paid or payable by the recipient on receipt of an option. Executive share options carry no rights to dividends and no voting rights. Options may be exercised at any time from their date of vesting to the date of their expiry.

(i) Exercised during the financial year

No share options granted under the Chief Executive Share Option Plan were exercised during the financial year.

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(ii) Lapsed during the financial year

As a result of expiry on the 22 August 2008 and 30 August 2008, 500,000 share options granted under the Chief Executive Share Option Plan lapsed during the financial year.

Senior Manager Share Option Plan

The company instituted an ownership-based compensation scheme for senior managers of the company. Under the terms of the scheme, senior managers were granted options to purchase parcels of ordinary shares subject to continuing employment with the company and the allotment of such options complying with ASX Listing Rules and the Corporations Act 2001.

Mr Rossidis and Mr Kadish have not been granted any options under the Senior Manager Share Option Plan.

The following share-based payment arrangements were in existence under this scheme during the current and comparative reporting periods:

Options series	Number	Vesting date	Expiry date	Exercise price \$	Fair value at grant date \$
1a. Issued 2 Jan 2007	100,000	2 January 2007	31 August 2007	1.00	0.06
1b. Issued 30 April 2007	65,000	30 April 2007	31 August 2007	1.00	0.01
2a. Issued 2 Jan 2007	100,000	2 January 2007	31 August 2008	1.25	0.05
2b. Issued 30 April 2007	90,000	30 April 2007	31 August 2008	1.25	0.02

(i) Exercised during the financial year

No share options granted under the Senior Manager Option Plan were exercised during the financial year.

(ii) Lapsed during the financial year

As a result of expiry on 31 August 2008, 190,000 options granted under the Senior Management Share Option Plan lapsed during the financial year.

Contracts for services

Mr Rossidis is employed under an open-ended contract with a notice period of three months. Mr Kadish is employed under an open-ended contract with a notice period of one month. The contracts do 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 and the audit of a government grant. The directors do not believe that the provision of advice of this nature compromises the general principles relating to auditor independence, as set out by the Institute of Chartered Accountants in Australia.

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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 18 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.

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, 26 August 2009

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

26 August 2009

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 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



JB West  
Partner  
Chartered Accountants  
Melbourne, 26 August 2009

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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 balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company as set out on pages 21 to 54.

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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## *Auditor's Independence Declaration*

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

## *Auditor's Opinion*

In our opinion:

- (a) the financial report of Medical Developments International Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Auditor's Opinion*

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

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*JB West*

JB West  
Partner  
Chartered Accountants  
Melbourne, 26 August 2009

## Directors' Declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company; and
- c) 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, 26 August 2009

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**Income Statement for the Financial Year Ended 30 June 2009**

		2009 \$'000	2008 \$'000
Revenue from sale of goods	4(a)	8,727	9,219
Cost of sales		<u>(3,031)</u>	<u>(3,495)</u>
<b>Gross Profit</b>		5,696	5,724
Other income	4(a)	114	77
Distribution expenses		(335)	(303)
Marketing expenses		(678)	(1,205)
Occupancy expenses		(239)	(179)
Administration expenses	4(c)	(1,877)	(1,328)
Regulatory and registration expenses		(803)	(914)
Other expenses		(690)	(565)
Finance costs	4(b)	<u>(13)</u>	<u>(6)</u>
<b>Profit before income tax expense</b>		1,175	1,301
Income tax expense	5(a)	<u>(365)</u>	<u>(410)</u>
<b>Profit for the period</b>		<u>810</u>	<u>891</u>
 <b>Earnings per Share:</b>			
Basic (cents per share)	22	1.5	1.6
Diluted (cents per share)	22	1.5	1.6

Notes to the financial statements are included on pages 26-54

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**Balance Sheet as at 30 June 2009**

	Note	30 June 2009 \$'000	30 June 2008 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	27(a)	257	473
Trade and other receivables	9	1,692	1,985
Inventories	10	1,377	1,011
Other	11	113	93
<b>Total Current Assets</b>		<b>3,439</b>	<b>3,562</b>
<b>Non-Current Assets</b>			
Plant and equipment	12	863	1,027
Goodwill	13	7,368	7,368
Other intangible assets	14	1,465	1,050
Deferred tax assets	5(d)	257	142
<b>Total Non-Current Assets</b>		<b>9,953</b>	<b>9,587</b>
<b>Total Assets</b>		<b>13,392</b>	<b>13,149</b>
<b>Current Liabilities</b>			
Trade and other payables	15	863	758
Provisions	16	149	92
Current tax liabilities	5(c)	246	175
<b>Total Current Liabilities</b>		<b>1,258</b>	<b>1,025</b>
<b>Non-Current Liabilities</b>			
Provisions	17	31	26
Other	18	289	297
<b>Total Non-Current Liabilities</b>		<b>320</b>	<b>323</b>
<b>Total Liabilities</b>		<b>1,578</b>	<b>1,348</b>
<b>Net Assets</b>		<b>11,814</b>	<b>11,801</b>
<b>Equity</b>			
Issued capital	19	7,293	7,985
Reserves	20	185	152
Retained earnings	21	4,336	3,664
<b>Total Equity</b>		<b>11,814</b>	<b>11,801</b>

Notes to the financial statements are included on pages 26-54

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**Statement of Changes in Equity for the Financial Year Ended 30 June 2009**

	Financial year ended 30 June 2009			
	Issued capital \$'000	Retained earnings \$'000	Employee equity settled benefits reserve \$'000	Total \$'000
<b>Opening balance</b>	7,985	3,664	152	11,801
Profit for the period	-	810	-	810
Income or expenses recognised directly in equity	-	-	-	-
Total recognised income & expense	-	810	-	810
Reversal of share based payment	-	-	-	-
Share based payment	-	-	33	33
Share buy-back	(692)	(138)	-	(830)
Dividends provided for or paid	-	-	-	-
<b>Closing balance</b>	<b>7,293</b>	<b>4,336</b>	<b>185</b>	<b>11,814</b>

	Financial year ended 30 June 2008			
	Issued capital \$'000	Retained earnings \$'000	Employee equity settled benefits reserve \$'000	Total \$'000
<b>Opening balance</b>	8,092	2,840	89	11,021
Profit for the period	-	891	-	891
Income or expenses recognised directly in equity	-	-	-	-
Total recognised income & expense	-	891	-	891
Reversal of share based payment	-	-	(10)	(10)
Share based payment	-	-	73	73
Share buy-back	(107)	(67)	-	(174)
Dividends provided for or paid	-	-	-	-
<b>Closing balance</b>	<b>7,985</b>	<b>3,664</b>	<b>152</b>	<b>11,801</b>

Notes to the financial statements are included on pages 26-54

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**Cash Flow Statement for the Financial Year Ended 30 June 2009**

	2009 \$'000 Inflows (Outflows)	2008 \$'000 Inflows (Outflows)
Note		
<b>Cash flows from operating activities</b>		
Receipts from customers	9,047	8,495
Payments to suppliers and employees	(7,447)	(6,854)
Receipts from government grants	93	76
Interest received	14	27
Interest and other costs of finance paid	(13)	(6)
Income tax paid	(410)	(510)
Net cash provided by operating activities	27(b) 1,284	1,228
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	(121)	(250)
Payments for other intangible assets	(488)	(593)
(Refund)/Receipts from government grant	(8)	201
Net cash used in investing activities	(617)	(642)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	800	-
Repayment of borrowings	(800)	(250)
Payment for share buy-back	(830)	(174)
Net cash used in financing activities	(830)	(424)
<b>Net (decrease)/increase in cash held</b>	(163)	162
<b>Cash at the beginning of the financial year</b>	473	335
Effects of exchange rate changes on the balance of cash held in foreign currencies	(53)	(24)
<b>Cash at the end of the financial year</b>	27(a) 257	473

Notes to the financial statements are included on pages 26-54

## Notes to the Financial Statements for the Financial Year Ended 30 June 2009

### 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, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS 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 26 August 2009.

#### Basis of Preparation

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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.

#### 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

##### *(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.

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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.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

*(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*

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

*(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.

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Cash flows are included in the cash flow statement 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 profit or loss and is not subsequently reversed. Refer also to note 1(j).

*(i) Government grants*

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

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

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

*(j) Impairment of assets*

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss 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 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.

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*(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).

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 income statement, 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;

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- 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.

Deferred registration costs

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

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

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

*(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 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.

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*(p) Plant and equipment*

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

Depreciation

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

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

Leasehold improvements	5 years
Plant and equipment	4 -10 years

*(q) Provisions*

Provisions are recognised when the company 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 after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black-Scholes options valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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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) Standards and interpretations issued not yet effective*

**(aa) Standards and Interpretations issued not yet effective**

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the company's financial report:

<b>Standard</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	01-January-2009	30-June-2010
AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	01-January-2009	30-June-2010
AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments'	1 January 2009 (and that ends on or after 30 April 2009)	30-June-2010

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Initial application of the following Standards/Interpretations is not expected to have any material impact on the financial report of the company:

<b>Standard/ Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	01-January-2009	30-June-2010
AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	Business combinations occurring after the beginning of annual reporting periods beginning 01-July-2009	30-June-2010
AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	01-January-2009	30-June-2010
AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	01-January-2009	30-June-2010
AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	01-January-2009	30-June-2010
AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	01-July-2009	30-June-2010
AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	01-January-2009	30-June-2010
AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items'	01-July-2009	30-June-2010
AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	01-July-2009	30-June-2010
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	01-January-2010	30-June-2011
AASB 2009-6 "Amendments to Australian Accounting Standards"	01-January-2009	30-June-2010
AASB 2009-7 "Amendments to Australian Accounting Standards"	01-July-2009	30-June-2010
AASB 1 'First-time Adoption of Australian Accounting Standards'	01-July-2009	30-June-2010
AASB Interpretation 15 'Agreements for the Construction of Real Estate'	01-January-2009	30-June-2010
AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	01-October-2008	30-June-2010
AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners'	01-July-2009	30-June-2010
AASB Interpretation 18 'Transfers of Assets from Customers'	01-July-2009	30-June-2010

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*(u) Derivative financial instruments*

The Company employs a variety of financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 28 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

**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 \$7,368 thousand (2008: 7,368 thousand). Details of the impairment calculation are provided in note 13.

**3. Segment information**

**Products and services within each business segment**

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

- Pharmaceuticals – the sale of Pentrox<sup>®</sup> primarily within Australia and New Zealand, but with some sales in Europe, the Middle East and North 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 devices within Australia and Europe

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**Segment revenues and results**

	Pharmaceuticals		Medical Equipment		Veterinary Equipment		Unallocated		Total	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Revenues:</b>										
External sales	5,411	5,645	2,954	3,143	288	431	-	-	8,653	9,219
Other income	-	-	-	-	-	-	188	77	188	77
Total revenue									<u>8,841</u>	<u>9,296</u>
<b>Results:</b>										
Segment results	1,526	1,429	718	1,103	70	202			2,314	2,733
Unallocated							(1,139)	(1,433)	(1,139)	(1,433)
Profit before income tax expense									1,175	1,301
Income tax expense									(365)	(410)
Net profit for the period from continuing operations									<u>810</u>	<u>891</u>
<b>Assets and Liabilities</b>										
Assets	5,072	4,883	3,692	3,653	679	748	3,948	3,905	13,392	13,189
Liabilities	-	-	-	-	-	-	1,578	1,388	1,578	1,388
<b>Other Segment Information</b>										
Acquisition of segment assets	94	69	27	148	-	-				
Depreciation and amortisation of segment assets	159	192	23	42	-	-				
Other non-cash expenses	-	-	-	-	-	-				

Segment results by geographic segment are not presented as no geographic segment outside Australia and New Zealand accounts for 10% or more of the total revenues, segment results and assets.

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**4. Profit for the year**

	2009 \$'000	2008 \$'000
<b>(a) Revenue and other income</b>		
Revenue from sale of goods	8,727	9,219
Other operating lease rental income	7	7
Interest revenue - bank deposits	14	27
Government grant income	93	43
	8,841	9,296

**(b) Profit before income tax**

Profit before income tax has been arrived at after charging the following expenses:

Inventory - write down of inventory to net realisable value	(30)	(12)
Finance cost - interest on loans	(13)	(6)
Net bad and doubtful debts arising from other entities	(434)	-
Depreciation of non-current assets	(285)	(258)
Amortisation of non-current assets	(72)	(60)
Research & development costs immediately expensed	(1)	(31)
Operating lease rental expenses - minimum lease payments	(90)	(88)
Employee benefit expense:		
Short-term employee benefits	(1,521)	(1,327)
Post employment benefits – defined contributions plans	(208)	(225)
Equity settled share based payments	(33)	(63)

**(c) Administration expenses**

Included in administration expenses is a provision for a doubtful debt of \$434 thousand, (2008 - \$nil) relating to a debtor in Saudi Arabia which may be impaired due to product registration difficulties being experienced in Saudi Arabia.

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**5. Income Taxes**

	2009 \$'000	2008 \$'000
<b>(a) Income tax recognised in profit or loss</b>		
Tax expense comprises:		
Current tax expense	480	420
Deferred tax expense relating to the origination and reversal of temporary differences	(115)	(10)
Total tax expense	365	410

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	1,175	1,301
Income tax calculated at 30%	353	390
Share based payment expense	10	19
Other	2	1
	365	410

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 (2008: \$nil)

**(c) Current tax liabilities**

Income tax payable	246	175
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**(d) Deferred tax assets**

Temporary differences	257	142
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2009	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>Deferred tax assets:</b>			
Deferred grant revenue	81	5	86
Unrealised foreign exchange losses	6	2	8
Accrued expenses	89	(58)	31
Provisions	36	18	54
Provision for Doubtful Debts	0	130	130
Deferred registration costs	(70)	18	(52)
	142	115	257

2008	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>Deferred tax assets:</b>			
Deferred grant revenue	21	(60)	81
Unrealised foreign exchange losses	9	3	6
Accrued expenses	18	(71)	89
Provisions	34	(2)	36
IPO costs	50	50	-
New market development expenses	-	70	(70)
	132	(10)	142

### 6. Key management personnel compensation

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

	2009 \$	2008 \$
Short-term employee benefits	493,854	502,877
Post employment benefits	69,587	70,403
Share based payments	32,621	67,254
	596,062	640,534

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**7. Share-based payments**

Chief Executive Officer Share Option Plan

No options were granted during the financial year.

The following options, to which Mr Rossidis was granted a contractual right on 16 January 2007 for nil consideration, subject to continuing employment with the company and the allotment of such options complying with ASX Listing Rules and the Corporations Act 2001, were in existence during the current and comparative reporting periods.

Options series	Number	Vesting date	Expiry date	Exercise price \$	Fair value at grant date \$
1. Issued 22 August 2007	250,000	22 August 2007	22 August 2008	0.85	0.08
2. Issued 23 October 2007	250,000	23 October 2007	30 August 2008	1.00	0.06
3. Issued 23 October 2007	250,000	23 October 2007	30 August 2009	1.25	0.07
4. Issued 30 August 2008	500,000	30 August 2008	30 August 2010	1.50	0.11
5. Not yet issued	500,000	30 August 2009	30 August 2011	1.75	0.14

The weighted-average fair value of the options to which a contractual right was granted during the year is \$nil (2008: \$nil). The weighted average life remaining is approximately 10 months (2008: 21months).

The types of options to which Mr Rossidis has a contractual right are American style options. The key characteristic of this type of option is that exercise of the option may occur prior to the expiry date but not before the vesting date. Where the dividend yield is not expected to be significant over the potential exercise period, a Black-Scholes model, typically used for European options, is appropriate. As a result, these contractual rights to options have been valued by applying the terms of each option stream to the Black-Scholes formula. The key assumptions which support the fair value in the table above are as follows:

Inputs into the model	Option Series				
	Series 1	Series 2	Series 3	Series 4	Series 5
Share price (\$)	0.55	0.55	0.55	0.55	0.55
Exercise price (\$)	0.85	1.00	1.25	1.50	1.75
Expected volatility (%)	69.1	69.1	69.1	69.1	69.1
Option life (years)	0.5 to 1.6	0.5 to 1.6	0.6 to 2.6	1.6 to 3.6	2.6 to 4.6
Risk-free interest rate (%)	6.10	6.10	6.10	6.03	6.03

In the table above, the data for the key inputs to the model were generated as follows:

- Share price: The market price of MDI shares as at 16 January 2007.
- Exercise price: per the contractual agreement
- Expected volatility: based on the annualised standard deviation for MDI's ordinary shares for the period since listing in December 2003.
- Option life: per the contractual agreement based on a range of shortest option life resulting from exercise of options immediately on vesting date, and longest option life resulting from exercise of options immediately before expiry date
- Risk-free interest rate: Continuously compounded yield on 3 year and 5 year government bonds.
- Dividend policy: the dividend yield over the exercise period is unlikely to be significant

The option streams were valued using both the low end and high end expected option lives, and the mid-point was adopted as the fair value. The aggregate fair value as at grant date (16 January 2007) was \$181,304.

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**(i) Exercised during the financial year**

No share options granted under the Chief Executive Share Option Plan were exercised during the financial year.

**(ii) Lapsed during the financial year**

As a result of expiry on 22 August 2008 and 30 August 2008, 500,000 share options granted under the Chief Executive Share Option Plan lapsed during the financial year.

**Senior Manager Share Option Plan**

The company instituted an ownership-based compensation scheme for senior managers of the company. Under the terms of the scheme, senior managers were granted options to purchase parcels of ordinary shares subject to continuing employment with the company and the allotment of such options complying with ASX Listing Rules and the Corporations Act 2001.

Mr Rossidis and Mr Kadish have not been granted any options under the Senior Manager Share Option Plan.

The following share-based payment arrangements were in existence under this scheme during the current and comparative reporting periods:

Options series	Number	Vesting date	Expiry date	Exercise price \$	Fair value at grant date \$
1a. Issued 2 Jan 2007	100,000	2 January 2007	31 August 2007	1.00	0.06
1b. Issued 30 April 2007	65,000	30 April 2007	31 August 2007	1.00	0.01
2a. Issued 2 Jan 2007	100,000	2 January 2007	31 August 2008	1.25	0.05
2b. Issued 30 April 2007	90,000	30 April 2007	31 August 2008	1.25	0.02

The weighted-average fair value of the options to which a contractual right was granted during the year is \$nil (2008: \$nil). The weighted average life remaining is 0 months (2008: 2 months).

The types of options issued to senior managers are American style options. The key characteristic of this type of option is that exercise of the option may occur prior to the expiry date but not before the vesting date. Where the dividend yield is not expected to be significant over the potential exercise period, a Black-Scholes model, typically used for European options, is appropriate. As a result, these options have been valued by applying the terms of each option stream to the Black-Scholes formula. The key assumptions which support the fair value in the table above are as follows:

Inputs into the model	Option Series			
	Series 1a	Series 1b	Series 2a	Series 2b
Share price (\$)	0.63	0.57	0.63	0.57
Exercise price (\$)	1.00	1.00	1.50	1.50
Expected volatility (%)	69.1	69.1	69.1	69.1
Option life (years)	0.7	0.3	1.7	1.3
Risk-free interest rate (%)	6.10	6.10	6.10	6.10

In the table above, the data for the key inputs to the model were generated as follows:

- Share price: The market price of MDI shares as at 2 January 2007 and 30 April 2007.
- Exercise price: per the contractual agreement
- Expected volatility: based on the annualised standard deviation for MDI's ordinary shares for the period since listing in December 2003.
- Option life: per the contractual agreement based on a range of shortest option life resulting from exercise of options immediately on vesting date, and longest option life resulting from exercise of options immediately before expiry date

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- Risk-free interest rate: Continuously compounded yield on 3 year government bonds.
- Dividend policy: the dividend yield over the exercise period is unlikely to be significant

The option streams were valued using the expected option lives, and the aggregate fair value as at the grant dates (2 January 2007 and 30 April 2007) was \$18,857.

**(i) Exercised during the financial year**

No share options granted under the Senior Manager Option Plan were exercised during the financial year.

**(ii) Lapsed during the financial year**

As a result of expiry on 31 August 2008, 190,000 options granted under the Senior Manager Option Plan lapsed during the year.

**8. Remuneration of auditors**

	2009 \$	2008 \$
<b>Auditor of the entity</b>		
Audit or review of the financial report	93,519	93,180
Other services	17,247	29,399
	110,766	122,579

The auditor of the entity is Deloitte Touche Tohmatsu.

The other services relate to the audit of a government grant and taxation services.

**9. Current receivables**

	2009 \$'000	2008 \$'000
Trade receivables (i)	2,101	1,965
Allowance for doubtful debts	(434)	-
GST recoverable	25	20
	1,692	1,985

(i) The average credit period on sales of goods is 60 days. No interest is charged on trade receivables. An estimate has been made for estimated irrecoverable amounts from sale of goods, determined by specifically considering all outstanding debts in light of previous default experience.

The Company has credit insurance in place to reduce its credit exposure to significant debtors.

Included in the company trade receivable balance and debtors with a carrying amount of \$265,000 (2008: \$20,000) which are past due at the reporting date for which the company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The company does not hold any collateral over these balances. The average age of these receivables is 120 days. (2008: 99 days).

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Aging of past due but not impaired

	2009 \$'000	2008 \$'000
60 - 90 days	-	4
90 - 120 days	265	16
Total	<u>265</u>	<u>20</u>

Movement in the allowance for doubtful debts

	2009 \$'000	2008 \$'000
Balance at the beginning of the year	-	-
Impaired losses recognised on receivables	434	-
Amounts written off as uncollectible	-	-
Amount recovered during the year	-	-
Impaired losses reversed	-	-
Balance at the end of the year	<u>434</u>	<u>-</u>

In determining the recoverability of trade receivable, the Company 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 directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

**10. Current inventories**

	2009 \$'000	2008 \$'000
Raw materials:		
At cost	641	616
Work in progress:		
At cost	358	128
Finished goods:		
At cost	378	267
	<u>1,377</u>	<u>1,011</u>

**11. Other current assets**

	2009 \$'000	2008 \$'000
Prepayments	<u>113</u>	<u>93</u>

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**12. Plant & equipment**

	Leasehold improvements at cost \$'000	Plant and equipment at cost \$'000	Total \$'000
<b>Gross carrying amount</b>			
Balance at 1 July 2007	111	1,771	1,882
Additions	-	250	250
Disposals	-	(26)	(26)
Balance at 1 July 2008	111	1,995	2,106
Additions	27	94	121
Disposals	-	(103)	(103)
Balance at 30 June 2009	138	1,986	2,124
<b>Accumulated depreciation</b>			
Balance at 1 July 2007	(46)	(775)	(821)
Depreciation expense	(21)	(237)	(258)
Balance at 1 July 2008	(67)	(1,012)	(1,079)
Depreciation expense	(23)	(262)	(285)
Disposal	-	103	103
Balance at 30 June 2009	(90)	(1,171)	(1,261)
<b>Net book value</b>			
As at 30 June 2008	44	983	1,027
As at 30 June 2009	48	815	863

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

	2009 \$'000	2008 \$'000
Plant & equipment	(285)	(258)

**13. Goodwill**

	2009 \$'000	2008 \$'000
<b>Gross carrying amount</b>		
Balance at beginning of financial year	7,368	7,368
Balance at end of financial year	7,368	7,368
<b>Net book value</b>		
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 (2008: nil).

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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:

	2009	2008
	\$'000	\$'000
Pharmaceuticals	3,808	3,808
Medical devices	2,979	2,979
Veterinary equipment	581	581

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 approved financial budget for the following year is used to determine the cash flows for years 1-5; year 1 is based on the budget, years 2-5 use the year 1 results with growth at 5% for all business units. The terminal value for all three units is based on the year 5 figure with no real growth, and the discount rate used for all units is 17.86% (2008: 17.02%).

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

- Sales growth – described above
- Gross margin – it is assumed that gross margin will remain stable. Although the company has seen some underlying raw materials price pressure, this has been offset by increased efficiencies and increased output.

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.

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**14. Other intangible assets**

	Patents & trademarks \$'000	Deferred registration costs \$'000	Total \$'000
<b>Gross carrying amount</b>			
Balance at 1 July 2007	22	501	523
Additions	62	531	593
Balance at 1 July 2008	84	1,032	1,116
Additions	35	453	488
Balance at 30 June 2009	119	1,485	1,604
<b>Accumulated amortisation</b>			
Balance at 1 July 2007	(5)	(1)	(6)
Amortisation expense	(7)	(53)	(60)
Balance at 1 July 2008	(12)	(54)	(66)
Amortisation expense	(10)	(63)	(73)
Balance at 30 June 2009	(22)	(117)	(139)
<b>Net book value</b>			
As at 30 June 2008	72	978	1,050
As at 30 June 2009	97	1,368	1,465

(i) The amortisation charge for the year of \$73 thousand (2008: \$60 thousand) has been included in administration expenses

**15. Current trade and other payables**

	2009 \$'000	2008 \$'000
Trade payables (i)	691	723
Accrued expenses	128	0
Employee benefits payable	11	3
PAYG withholding tax payable	33	32
	<b>863</b>	<b>758</b>

(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.

**16. Current provisions**

	2009 \$'000	2008 \$'000
Employee benefits	149	92

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**17. Non-current provisions**

	2009 \$'000	2008 \$'000
Employee benefits	31	26

**18. Other non-current liabilities**

	2009 \$'000	2008 \$'000
Unearned government grant income	289	297

**19. Issued Capital**

	2009 \$'000	2008 \$'000
51,357,651 fully paid ordinary shares (2008: 56,223,494)	7,293	7,985

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

	2009 No.	2009 \$'000	2008 No.	2008 \$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of period	56,223,494	7,985	56,980,000	8,092
Share buy-back	(4,865,843)	(692)	(756,506)	(107)
Balance at end of financial year	51,357,651	7,293	56,223,494	7,985

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

During the period the company executed a publicly announced share buy-back programme. All the shares purchased are cancelled. There were two purchases made during the financial year under the share buy-back programme where 4,865,843 shares were bought back.

**Share options**

Executive share options carry no voting rights to dividends and no voting rights. Further details of the executive share option plans are contained in note 6 to the financial statements.

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**20. Reserves**

	2009 \$'000	2008 \$'000
<b>Employee equity-settled benefits reserve</b>		
Balance at beginning of year	152	89
Share-based payment recognised in income statement	33	63
	185	152

The employee equity-settled benefits reserve arises on the grant of a contractual right to share options to Mr Rossidis under the Chief Executive Share Option Plan and senior managers under the Senior Manager Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 7 to the financial statements.

**21. Retained earnings**

	2009 \$'000	2008 \$'000
Balance at beginning of financial year	3,664	2,840
Share buy-back	(138)	(67)
Net profit attributable to members	810	891
Balance at end of financial year	4,336	3,664

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**22. Earnings per share**

	2009 Cents per share	2008 Cents per share
Basic earnings per share	1.5	1.6
Diluted earnings per share	1.5	1.6

**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:

	2009 \$'000	2008 \$'000
Earnings (a)	810	891
	2009 No.	2008 No.
Weighted average number of ordinary shares	54,613,140	56,812,118

(a) Earnings used is equal to the net profit in the income statement as there are no necessary adjustments

**Diluted earnings per share**

The options issued to the CEO and senior managers have not been included in the weighted average number of ordinary shares for the purposes of calculating a diluted EPS as they do not meet the requirements for inclusion contained in AASB133 "Earnings per share" The contractual rights to options are non-dilutive as the exercise prices for the various tranches were significantly higher than the company's share price as at 30 June 2009.

**23. Dividends**

No dividends were paid during the 2009 or 2008 financial years, and no dividend is payable in respect of the 2009 financial year.

	2009 \$'000	2008 \$'000
Adjusted franking account balance	1,765	1,442

**24. Operating leases**

Operating leases relate to factory leases with remaining lease terms of up to 18 months. The company does not have the option to purchase the leased asset at the expiry of the lease period.

	2009 \$'000	2008 \$'000
Non cancellable operating lease payments:		
Not longer than 1 year	83	88
Longer than 1 year and not longer than 5 years	17	39
	100	127

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**25. Related party disclosures**

**(a) Key management personnel compensation**

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

**(b) Key management personnel equity holdings – fully paid ordinary shares**

2009	Balance at 30	Granted as	Received on		Balance at 30
	June 2008		remuneration	exercise of	
	No.	No.	options	change	June 2009
	No.	No.	No.	No.	No.
D.J. Williams	23,039,323	-	-	843,234	23,882,557
A. Coulepis	225,000	-	-	35,000	260,000
I.M.C. Kirkwood	100,000	-	-	-	100,000
A.D. McCallum	440,095	-	-	-	440,095
H.F. Oxe	97,000	-	-	-	97,000
M. Van Ryn	920,898	-	-	-	920,898
C. Rossidis	100,000	-	-	-	100,000
J.Kadish	-	-	-	-	-
	<b>24,922,316</b>	<b>-</b>	<b>-</b>	<b>878,234</b>	<b>25,800,550</b>

2008	Balance at 30	Granted as	Received on		Balance at 30
	June 2007		remuneration	exercise of	
	No.	No.	options	change	June 2008
	No.	No.	No.	No.	No.
D.J. Williams	22,939,323	-	-	100,000	23,039,323
A. Coulepis	165,000	-	-	60,000	225,000
I.M.C. Kirkwood	100,000	-	-	-	100,000
A.D. McCallum	440,095	-	-	-	440,095
H.F. Oxe	32,000	-	-	65,000	97,000
M. Van Ryn	838,500	-	-	82,398	920,898
C. Rossidis	-	-	-	100,000	100,000
J.D. Payling	100,000	-	-	(100,000)	-
J.Kadish	-	-	-	-	-
	<b>24,614,918</b>	<b>-</b>	<b>-</b>	<b>307,398</b>	<b>24,922,316</b>

*J.D. Payling resigned on 31 March 2008 and as a result his holding of fully paid ordinary shares is not disclosed after this date.*

**(c) Key management personnel equity holdings – options**

Details of the executive share option plans are contained in note 7 to the financial statements.

**26. Subsequent events**

There has not been any matter or circumstance that has arisen since the end of the financial year 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.

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**27. Notes to the cash flow statement**

	2009 \$'000	2008 \$'000
<b>(a) Reconciliation of cash and cash equivalents</b>		
For the purposes of the cash flow statement, cash includes cash on hand and in banks. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related item in the balance sheet as follows:		
Cash and cash equivalents	257	473
	257	473
	2009 \$'000	2008 \$'000
<b>(b) Reconciliation of profit for the period to net cash flows from operating activities</b>		
Profit for the period	810	891
Depreciation and amortisation of non-current assets	358	318
Loss on sale or disposal of non-current assets	-	26
Foreign exchange loss	53	24
Equity settled share based payment expense	33	63
Increase/(Decrease) in current tax liabilities	71	(90)
(Increase)/Decrease in deferred tax assets	(115)	(10)
Changes in assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	293	(778)
Current inventories	(366)	367
Other current assets	(20)	(16)
Increase/(decrease) in liabilities:		
Current payables	105	431
Current provisions	57	35
Other current liabilities	-	(3)
Non-current provisions	5	(30)
Net cash from operating activities	1,284	1,228
	2009 \$'000	2008 \$'000
<b>(c) Financing facilities</b>		
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount used	-	-
Amount unused	150	150
	150	150
Secured bank loan facility with a maturity date in 2009 and which may be extended by mutual agreement		
Amount used	-	-
Amount unused	2,000	2,000
	2,000	2,000

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**28. Financial Instruments**

**(a) Capital risk management**

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

The capital structure of the company consists of debt, which comprises, equity comprising capital, reserves, retained earnings, and cash and cash equivalents as disclosed in notes 19, 20, 21, and 27(a), respectively.

The company is not subject to externally imposed capital requirements.

**(b) Significant accounting policies**

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

**(c) Financial risk management objectives**

The company'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 company. 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 counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties. The company'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 company's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

**(e) Foreign currency risk management**

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

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

	Liabilities		Assets	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
US Dollars	91	252	184	834

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

**Foreign currency sensitivity analysis**

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

The following table details the Company'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, and the balances below would be negative.

	USD Impact	
	2009	2008
	\$'000	\$'000
Profit or Loss	(12)	12

(i) This is attributable to the exposure outstanding on USD receivables and payables at year end in the Company

**Forward foreign exchange contracts**

The Company may enter into forward foreign exchange contracts to specifically reduce its exposure to foreign currency risk.

The following table details the foreign currency contract outstanding at reporting date:

Outstanding Contracts	Exchange rate		Foreign Currency		Contract Value		Fair Value	
	2009	2008	2009	2008	2009	2008	2009	2008
			FC'000	FC'000	\$'000	\$'000	\$'000	\$'000
<u>Sell US Dollars</u> 4 months	-	0.951	-	435	-	457	-	(1)

**(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.

**(g) Interest rate risk management**

The company is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by maintaining an appropriate level of borrowings.

**Interest rate sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates at reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis points increase or decrease is used when assessing interest rate risk

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internally by key management personnel and represents management's assessment of the possible change in interest rates. At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's net profit would increase by \$1 thousand and decrease by \$nil. (2008: increase by \$2 thousand and decrease by \$2 thousand). This is mainly attributable to the Company's exposure to interest rates on its variable deposits and borrowings.

The following table details the company's exposure to interest rate risk as at 30 June 2009 and 30 June 2008:

	Variable interest rate maturity						
	Average	Variable	Less than 1	1 to 5	More than 5	Non-interest	Total
	interest rate	interest rate	year	years	years	bearing	
%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<i>2009</i>							
<i>Financial assets</i>							
Cash	0.02	257	-	-	-	-	257
Receivables	-	-	-	-	-	1,667	1,667
		<u>257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,667</u>	<u>1,924</u>
<i>Financial liabilities</i>							
Payables	-	-	-	-	-	863	863
Bank loan	-	-	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>863</u>	<u>863</u>

	Variable interest rate maturity						
	Average	Variable	Less than 1	1 to 5	More than 5	Non-interest	Total
	interest rate	interest rate	year	years	years	bearing	
%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<i>2008</i>							
<i>Financial assets</i>							
Cash	4.34	473	-	-	-	-	473
Receivables	-	-	-	-	-	1,965	1,965
		<u>473</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,965</u>	<u>2,438</u>
<i>Financial liabilities</i>							
Payables	-	-	-	-	-	758	758
Bank loan	-	-	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>758</u>	<u>758</u>

**(h) Liquidity risk management**

The company 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 Company'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 company can be required to pay. The table includes both interest and principal cash flows.

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	Weighted average effective interest rate %	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>2009</b>					
Non-interest bearing	-	863	-	-	863
Bank loan	-	-	-	-	-
		<u>863</u>	<u>-</u>	<u>-</u>	<u>863</u>
<b>2008</b>					
Non-interest bearing	-	758	-	-	758
Bank loan	-	-	-	-	-
		<u>758</u>	<u>-</u>	<u>-</u>	<u>758</u>

**29. Additional company information**

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

*Company Secretary*  
Mr Jonathan Kadish

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7/56 Smith Road  
Springvale  
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