idt australia limited

IDT Australia Limited
annual report 2012

Company Information

Directors

Dr Graeme L Blackman OAM
BSc(Hons), PhD, FRACI, FTSE
(Chairman)

Geoffrey F Lord
BEco(Hons), MBA(Distn), ASSA, AICD
(Deputy Chairman)

Dr Roger Aston
BSc(Hons), PhD

Alan D Blackman
BA(Hons), LLB(Hons)

Robert Burnet
BA, MBA, FPSA(Hons)

Dr Robyn Elliott
BSc (Hons), PhD, FTSE
(Managing Director)

David Williams
B.Ec (Hons), M.Ec, FAICD

Secretary
Roman Najdecki
BComm, CPA, ACSA.

Share Register
ComputerShare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067

Bankers
National Australia Bank Limited
NAB Health
Level 2
151 Rathdowne Street
CARLTON VIC 3053

Auditors
RSM Bird Cameron Partners
Level 8
Rialto South Tower
525 Collins Street
MELBOURNE VIC 3000

Stock Exchange
Australian Stock Exchange Limited
530 Collins Street
MELBOURNE VIC 3000

Website Address
www.idtaus.com.au
www.cmax.com.au

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Registered Office
45 Wadhurst Drive
BORONIA VIC 3155
(03) 9801 8888

Notice of Annual General Meeting
The Annual General Meeting of IDT Australia Limited will be held at 45 Wadhurst Drive, Boronia, on 26 October 2012 at 10:00am.

Chairman's Report

I take this opportunity to report to shareholders on the activities and financial results of IDT Australia Limited (IDT) during the year ended 30 June 2012.

The year has again been a difficult one and has delivered a poor result for shareholders. An after tax loss of $1.837 million came after the company wrote off $0.841 million of capitalised research and development costs of projects not going forward. The company result has been influenced by a significant deferral by clients of a number of projects into FY13. We expect these projects will be actioned during the current year.

The factors causing the deferral of projects included rationalisation of the global pharmaceutical industry leading to a number of our clients undergoing a sale process. Difficult financial markets continued to be a factor in project deferrals through inability to fund development projects. A further factor was the strong Australian dollar reducing both the profitability of contracts and our competitive position against US and Asian suppliers.

Despite this the teams at Boronia and CMAX Adelaide have noted that proposal activity and opportunities are increasing. Additional business development resources have been employed to assist the teams in improving the revenue outlook.

During the year, the company invested some $1.3 million in facility, technology and system upgrades to continue to provide a "world class" service and meet world wide regulatory compliance requirements.

At the same time IDT invested some $0.8 million in the development of a niche generic anticancer oral pharmaceutical in partnership with an Indian Pharma company. US sales of this product are expected to commence in the 2014 calendar year.

The global pharmaceutical industry is in a state of consolidation and change and with that in mind the Board has appointed investment bank Kidder Williams to assist it with business development in order to grow the company. The company which is seeking to grow through acquisitions or a merger is seeking acquisition targets and possible merger and joint venture partners. We are concentrating on parties with which there is a strong strategic fit given our extensive experience in manufacturing high potency active pharmaceutical ingredients and in Phase I and II clinical trials.

The company will utilise the services of Kidder Williams and its business development resources to provide IDT with a solid base for future earnings beyond the company's traditional contract outsourcing business model.

On the 30th June 2012, Dr Geoffrey Vaughan retired as a director of IDT Australia Limited. Dr Vaughan had been a foundation director of the company since 1986 and had been a director of the company's predecessor, Institute of Drug Technology Limited, when it was owned and operated by the Victorian College of Pharmacy. I wish to express to Dr Vaughan my personal thanks and the appreciation of the Board for his tireless work on behalf of the company and its shareholders as Director, and as Chairman of the Audit Committee. During the year, Dr Roger Aston, an experienced pharmaceutical industry executive and director joined the Board and we look forward to his continuing contribution.

Whilst the financial result is extremely disappointing, there has been dedicated work from the board, management and staff of the company. I thank them for their commitment to the company during what has been a difficult year and look forward to their ongoing work in the future.

Dr Graeme L Blackman OAM
Chairman

Managing Director's Report

The FY12 financial results reflect the full impact of the uncertain market conditions experienced by contract research, development and manufacturing companies, project delays due to additional regulatory requirements experienced by our clients and the high Australian dollar.

Operations

During 2011/2012 IDT developed relationships with new international clients with significant projects in the areas of high potency and antibiotic drugs.

The major treatment area for high potency drugs is as anti-cancer drugs. Cancer continues to be one of the leading causes of death worldwide and as such cancer treatment has become a global healthcare priority with rising therapeutic and commercial importance. IDT's long history in handling high potency containment products on large scales, detailed understanding of the drug development life cycle and outstanding regulatory compliance are the basis for the success in attracting new clients.

During FY12 IDT completed the requalification of the Sterile Manufacturing facilities in Facility P. This facility was transferred to IDT by Pfizer for no up front cost and is designed to manufacture antibiotics. IDT commenced multiple new contract development projects in Facility P in 2011/2012. The new projects utilised Facility P's Active Pharmaceutical Ingredient and Sterile Finished Product manufacturing suites and will lead to manufacturing opportunities in FY13 and beyond.

IDT also progressed its 'product ownership' strategy by undertaking development studies for both human use and veterinary products designated for world wide registration and sale. A major focus for the year was the completion of the registration batches for an oral anticancer drug. This work was undertaken with the assistance of a Victorian government grant. The IDT US regulatory filing for this anticancer product is expected to occur in 2012 with product approval and launch expected in 2014.

In 2011/2012 CMAX continued to support local and international biotechnology and pharmaceutical companies with the provision of Phase I and Phase II clinical trial services. CMAX has a current database of over 2000 volunteers who have registered interest in participating in clinical studies. This allows rapid recruitment and commencement of clinical trials. A key international differentiator of the CMAX business is the speed in which it is possible to commence a clinical trial in Australia. Due to the "Clinical Trials Notification" scheme in Australia, the lead time for study commencement is significantly reduced compared to other regulated countries. This time saving attracts international clients and led to new and repeat business in FY12.

Looking Forward

IDT has identified the following key initiatives as part of its plan to grow and transform its business in future years:

- Continue expansion of its "fee for service" API, finished product and clinical development pipeline and client base
- Achieve geographic expansion via increased business development and marketing initiatives
- Aim to convert late stage clinical products into long term supply agreements
- Actively seek merger or acquisition opportunities to strengthen IDT's intellectual property portfolio
- Look to leverage our expertise in containment products by developing a position in other high growth "niche" areas including containment generic products and specialised veterinary products
- Maximise the Facility P opportunity by developing or co-developing penem products

IDT's strong balance sheet and low debt will allow IDT's dedicated staff to continue to drive IDT towards transformational change.

Dr Robyn Elliott
Managing Director

Report of the Directors - 30 June 2012

Your directors present their report on the financial report of the company for the year ended 30 June 2012.

The following persons were directors of IDT Australia Limited during the whole of the financial year and up to the date of this report:

G L Blackman (Chairman)
A D Blackman
R Burnet
D Williams
G F Lord (Deputy Chairman)
G N Vaughan (resigned 30th June 2012)
R Elliott
R Aston (appointed 20th March 2012)

Principal Activities

The principal activities of the company in the course of the year were the supply of products and provision of research and development and other technical services for the pharmaceutical and allied industries.

Results

The net result of operations after applicable income tax expense was a loss of $1.837m (2011: $0.236m loss).

Dividends

Dividends paid to members during the financial year were as follows:

	2012 $'000	2011 $'000
Final ordinary dividend for the year ended 30 June 2011 of nil cents (2010 - nil) per fully paid share	**-**	-
Interim ordinary dividend for the year ended 30 June 2012 of nil cents (2011 - nil) per fully paid share	**-**	-
	-	-

No final dividend has been declared for the financial year ended 30 June 2012.

Review of Operations

During the year, the company continued to provide consulting research and development services and products for clients in the pharmaceutical and allied industries. A detailed review is given on pages 2 and 3 of this annual report.

Matters Subsequent to the End of the Financial Year

At the date of this report there was no matter or circumstance which has arisen since 30 June 2012 that has significantly affected or may significantly affect:

(a) the operations of the company;
(b) the results of those operations; or
(c) the state of affairs of the company.

Likely Developments

In the opinion of the directors, disclosure of additional information to that reported in this Report of the Directors regarding likely developments in the operations of the company and the expected results of those operations in subsequent financial years would unreasonably prejudice the interests of the company. Accordingly, this information has not been included in this report.

Report of the Directors - 30 June 2012

Environmental Regulations

The company is subject to environmental controls in relation to its manufacturing operations. These include obligations to comply with provisions of the Environment Protection Act and a Trade Waste Agreement with South East Water. The company is also subject to environmental audits by local and international clients. At the date of this report, the company has not been found to be in breach of any of its environmental obligations.

Insurance of Officers

During the financial year, the company has paid an insurance premium insuring all officers of the company. The officers of the company include the directors. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company. The insurance premium paid during the financial year was $23,500.

Share Options

There were no unissued ordinary shares of IDT Australia Limited under option at the date of this report.

There were no options granted or exercised under the Executive Share Option Plan during the year ended 30 June 2012.

Significant Changes in the State of Affairs

In the opinion of the directors, there have been no significant changes in the state of affairs of the company during the financial year under review not otherwise disclosed in this report or the financial statements.

Meetings of Directors

The following table sets out the number of meetings of the company's directors held during the year ended 30 June 2012, and the number of meetings attended by each director.

Director	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
R Aston	4	4	-	-	-	-	-	-
A D Blackman	13	12	2	2	1	1	1	1
G L Blackman	13	13	-	-	-	-	1	1
R Burnet	13	13	2	2	1	1	-	-
R Elliott	13	13	-	-	-	-	-	-
G F Lord	13	12	-	-	1	1	1	1
G N Vaughan	13	11	2	2	-	-	1	1
D Williams	13	13	-	-	-	-	-	-

A = Meetings held while a director or member.
B = Meetings attended while a director or member.
\- = Not a member of relevant committee.

Report of the Directors - 30 June 2012 (Continued)

Information on Directors

	Dr Graeme L Blackman OAM Age 66
Qualifications:	BSc(Hons), PhD, FRACI, FAICD, FTSE, FIoD
Experience:	Formerly Professor of Pharmaceutical Chemistry, Victorian College of Pharmacy. Extensive experience in research and development and commercial scientific consulting.
Other Current Directorships:	None.
Former Directorships in Last 3 Years:	None.
Responsibilities:	Chairman of the Board since 1986 and former Managing Director (1988-2007). Member of Nomination Committee.
Particulars of equity interests in company:	5,830,313 fully paid ordinary shares.

	Alan D Blackman Age 64
Qualifications:	BA(Hons), LLB(Hons)
Experience:	Barrister in general practice in Victoria and New South Wales.
Other Current Directorships:	None.
Former Directorships in Last 3 Years:	None.
Responsibilities:	Non executive director since 1986. Member of Nomination, Remuneration and Audit Committees
Particulars of equity interests in company:	129,600 fully paid ordinary shares.

	Robert Burnet Age 69
Qualifications:	BA, MBA, FPSA(Hon)
Experience:	Formerly Campus Director Clayton and Berwick Campuses, Monash University. Experienced in university management in general and pharmaceutical teaching and research in particular. Currently a consultant in crisis management and recovery.
Other Current Directorships:	None.
Former Directorships in Last 3 Years:	None.
Responsibilities:	Non executive director since 1986. Member of Audit and Remuneration Committees.
Particulars of equity interests in company:	262,000 fully paid ordinary shares (direct). 155,400 fully paid ordinary shares (indirect).

	Geoffrey F Lord Age 67
Qualifications:	BEco(Hons), MBA(Distn), ASSA, AICD
Experience:	Formerly Chief Executive and Deputy Chairman of Elders Resources Limited.
Other Current Directorships:	Presently Chairman and Chief Executive of Belgravia Group Pty Ltd. Non Executive Chairman of UXC Limited (since 2002), Chairman of LCM Litigation Fund, Maxitrans Industries Limited (director since 2000), Auto Group Limited (director since 1999) and Northern Energy Corporation Limited (director since 2007).
Former Directorships in Last 3 Years:	Mac Services Group Limited (2007 to 2009), Terrain Capital and Melbourne Victory Limited (2004 to 2010), Ausmelt Limited (2001 to 2010), KLM Group Limited (2006 to 2010).
Responsibilities:	Non executive director since 1998. Appointed Deputy Chairman on 2 January 2008. Member of Nomination and Remuneration Committees.
Particulars of equity interests in company:	5,693,254 fully paid ordinary shares (indirect).

Report of the Directors - 30 June 2012 (Continued)

	Dr Geoffrey N Vaughan AO Age 79 (resigned 30th June 2012)
Qualifications:	MSc, PhD, FRACI, FTSE
Experience:	Formerly National Manager of the Therapeutic Goods Administration. Former Chairman of the Co-operative Research Centres Committee, Member of Industry Research and Development Board of the Department of Industry, Tourism & Resources and Councillor of Questacon, the National Science and Technology Centre.
Other Current Directorships:	None.
Former Directorships in Last 3 Years:	Non-executive director of Cytopia Limited (1998-2010).
Responsibilities:	Non executive director since 1997. Member of Nomination and Audit Committees.
Particulars of equity interests in company:	310,400 fully paid ordinary shares.

	Dr Robyn Elliott Age 51
Qualifications:	BSc (Hons), PhD, FTSE
Experience:	Managing Director since 2 January 2008. Formerly General Manager of IDT Australia Limited since 1995.
Other Current Directorships:	None.
Former Directorships in Last 3 Years:	None.
Responsibilities:	Executive director since 2 January 2008.
Particulars of equity interests in company:	6,851 fully paid ordinary shares.

	David Williams Age 58
Qualifications:	B.Ec (Hons), M.Ec , FAICD
Experience:	Appointed Director on 21 December 2010. Managing Director of Kidder Williams Ltd, with over 26 years experience in the investment banking sector.
Other Current Directorships:	Non-Executive Chairman Medical Developments International Limited.
Former Directorships in Last 3 Years:	Clever Communications Limited (2007-2011).
Responsibilities:	Non Executive director since 21 December 2010. Chair of Audit Committee.
Particulars of equity interests in company:	Nil.

	Dr Roger Aston Age 56
Qualifications:	BSc(Hons), PhD
Experience:	Appointed Director on 20 March 2012. Formerley Chief Executive Officer of Mayne Pharma Group Limited.
Other Current Directorships:	Non-Executive Director Immuron Limited (since 2012).
Former Directorships in Last 3 Years:	Mayne Pharma Group Limited (2007-2011), Clinuvel Limited (2005-2010 Ascent PharmaHealth Limited (2009-2010).
Responsibilities:	Non Executive director since 20 March 2012. Member of Nomination Committee.
Particulars of equity interests in company:	Nil.

Company Secretary

The Company Secretary is Mr Roman Najdecki.
Mr Najdecki was appointed to the position of Company Secretary on 4 October 2010.

The remuneration committee, consisting of 3 non-executive directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, non-executive directors and senior executives.

Key Management Personnel Remuneration

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the company's operations and achieving the company's strategic objectives.

Directors' Remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. The Board also considers the advice of independent remuneration consultants and comparable companies to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's and Managing Director's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman and Managing Director are not present at any discussions relating to the determination of their remuneration.

Directors' Fees

Effective 1 July 2008 the non-executive directors' annual base fee increased to $40,000 from $30,000, except for the Deputy Chairman where the fee increased to $60,000 per annum. The Chairman's remuneration was last reviewed in December 2010.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum aggregate directors' fee pool currently is $400,000 for non-executive directors.

Details of the nature and amount of each element of the emoluments of each director of IDT Australia Limited and each of the key executives of the company receiving the highest emoluments are set out in the following tables.

Key Management Personnel Remuneration

Key Management Personnel remuneration and other terms of employment are reviewed annually by the remuneration committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice where necessary. As well as a base salary, remuneration packages include superannuation, discretionary bonuses and fringe benefits. Key Management Personnel are also eligible to participate in the Executive Share Option plan. There are no service agreements or special terms of employment for Key Management Personnel of IDT Australia Limited.

Report of the Directors - 30 June 2012 (Continued)

Key Management Personnel of IDT Australia Limited 2012

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Share-based payments	
Name	Cash salary and fees	Cash bonus	Non-monetry benefits	Super-annuation	Retirement benefits	Long Service Leave	Options/ Shares	Total
Non-executive Directors								
R Aston	$13,333	-	-	$1,200	-	-	-	$14,533
A D Blackman	-	-	-	$43,600	-	-	-	$43,600
R Burnet	$40,000	-	-	$3,600	-	-	-	$43,600
G F Lord	$60,000	-	-	-	-	-	-	$60,000
G N Vaughan	$40,000	-	-	$3,600	-	-	-	$43,600
D Wiliams	$40,000	-	-	-	-	-	-	$40,000
Sub-total non-executive directors	$193,333	-	-	$52,000	-	-	-	$245,333
Executive Directors								
G L Blackman Chairman	$158,770	-	$73,049	$10,800	-	$2,634	-	$245,253
R Elliott Managing Director	$379,810	-	$57,056	$34,096	-	$8,548	-	$479,510
Other key management personnel								
R Woods (Resigned 25 Nov 2011) R&D Manager	$90,128	-	-	$10,513	-	-	-	$100,641
R Najdecki Chief Financial Officer	$163,623	-	-	$47,339	-	-	-	$210,962
J Kelly Clinical Operations Manager	$180,578	-	$18,548	$16,165	-	$4,490	-	$219,781
P Elliott Quality Manager	$172,973	-	-	$15,481	-	$4,300	-	$ 192,754
Total key management personnel compensation	$1,339,215	-	$148,653	$186,394	-	$19,972	-	$1,694,234

Key Management Personnel of IDT Australia Limited 2011

	Short-term employee benefits			Post-employment benefits		Long-term benefits	Share-based payments	
Name	**Cash salary and fees**	**Cash bonus**	**Non-monetry benefits**	**Super-annuation**	**Retirement benefits**	**Long Service Leave**	**Options/ Shares**	**Total**
Non-executive Directors								
A D Blackman	-	-	-	$40,875	-	-	-	$40,875
R Burnet	$37,500	-	-	$3,375	-	-	-	$40,875
G F Lord	$42,500	-	-	-	-	-	-	$42,500
G N Vaughan	$37,500	-	-	$3,375	-	-	-	$40,875
D Wiliams	$21,667	-	-	-	-	-	-	$21,667
Sub-total non-executive directors	$139,167	-	-	$47,625	-	-	-	$186,792
Executive Directors								
G L Blackman Chairman	$136,268	-	$78,014	$10,800	-	$2,634	-	$227,716
R Elliott Managing Director	$351,365	-	$73,528	$27,589	-	$8,548	-	$461,030
Other key management personnel								
R Woods R&D Manager	$187,341	-	$8,846	$49,583	-	$5,413	$1,000	$252,183
A McKenzie # Chief Financial Officer	$161,629	-	$30,987	$20,797	-	$3,270	$1,000	$217,683
R Najdecki # Chief Financial Officer	$121,387	-	-	$35,505	-	-	-	$156,892
J Kelly Clinical Operations Manager	$180,532	-	$18,548	$16,165	-	$4,490	$1,000	$220,735
P Elliott Quality Manager	$172,927	-	-	$15,481	-	$4,300	$1,000	$ 193,708
Total key management personnel compensation	$1,311,449	-	$209,923	$175,920	-	$28,655	$4000	$1,729,947

Mr. R Najdecki was appointed as Chief Financial Officer on October 4 2010. Mr. A McKenzie held the office of Chief Financial Officer from 1st July 2010 until October 4, 2010. From October 4, 2010, Mr. McKenzie held a supporting financial role until his resignation date of 17 February 2011.

Share-based Compensation

Options are granted under the IDT Australia Limited Executive Option Plan terms and conditions.

Options are granted under the plan for no consideration. Options are granted for a four year period, and vest immediately upon granting.

There were no options issued in the 2012 and 2011 financial year and there are no outstanding options under the IDT Australia Limited Executive Option Plan.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted or at a premium to this price as the Directors may determine.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to executive directors and other executives, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Non-Audit Services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of the amounts paid to the auditor (RSM Bird Cameron Partners) for audit and non-audit services provided during the year are set out below.

The Board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 13.

Report of the Directors - 30 June 2012 (Continued)

Auditors Remuneration

	2012	2011
Total amounts receivable by RSM Bird Cameron Partners for:		
(a) Audit and review of the company's financial statements	73,000	70,000
(b) Other Services	540	11,000
	73,540	81,000

Proceedings on Behalf of the Company

No persons has applied to the court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purposes of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the court under Section 237 of the Corporations Act 2001.

Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors report. Amounts in the directors' report have been rounded off in accordance with the Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed at Melbourne this 27th day of August 2012, in accordance with a resolution of the directors.

Dr Graeme L Blackman OAM
Director

Robert Burnet
Director

RSM Bird Cameron Partners

RSM Bird Cameron Partners
Level 8 Rialto South Tower
525 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007
T +61 3 9286 1800   F +61 3 9286 1999
www.rsmi.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of IDT Australia Limited for the year ended 30 June 2012, 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.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

Miano

R B MIANO
Partner

27 August 2012
Melbourne, VIC

Corporate Governance Statement

IDT Australia Limited (the Company) and the Board are committed to achieving and demonstrating high standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of all stakeholders.

A description of the company's main corporate governance practices is set out below. All these practices unless otherwise stated, were in place for the entire year.

Principle 1: Lay Solid Foundations for Management and Oversight

The directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance these sometime competing objectives in the best interests of the company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed.

The functions of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy
- review and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- Overseeing and monitoring:
  - organisational performance and the achievement of the company's strategic goals and objectives
  - progress of major capital expenditures and other significant corporate projects including any acquisitions and divestments
- monitoring financial performance including approval of the annual and half-yearly financial reports and liaison with the company's auditors
- appointment of, and assessment of the performance of, the Managing Director and the members of the senior management team against annually set key performance indicators
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- ensuring the significant risks facing the company have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place
- reporting to shareholders, and
- ensuring appropriate resources are available to senior management.

Day to day management of the company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

A performance assessment for senior executives last took place in September 2010 as part of the performance review process.

Principle 2: Structure the Board to Add Value

The Board of Directors

The Board operates in accordance with the following broad principles that:

- the Board should comprise of both executive and non-executive directors with a majority of non-executive directors. Non executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters.
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the independence of the Board assists in exercising independent judgment and review and constructively challenging the performance of management.
- the Chair is elected by the full Board and is required to meet regularly with the Managing Director

- there is sufficient benefit to the company in maintaining a mix of directors on the Board from different backgrounds with complementary skills and experience
- the Board should undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the company

At the date of signing the Report of Directors, the Board consisted of five non-executive directors and two executive directors. Details about the directors are set out in the directors' report under the heading "Information on Directors".

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the company and directors with an external position
- the size of the Board is conducive to effective discussions with efficient decision making.

The Board is aware of the Australian Stock Exchange (ASX) corporate governance recommendation that the Chairperson should be an independent director of the company. Dr Graeme Blackman has held the role of Chairman for a number of years now and has in recent years held the position of Managing Director. These roles are now separated with the appointment of Dr Robyn Elliott to the role of Managing Director with Dr Blackman continuing in a part time executive role for the company. The Board believes that it is in the best interests of the company for Dr Blackman to continue in the role of Chairman of the company based on his experience and intimate knowledge of the company. The nomination committee will keep this matter under review and recommend to the Board any proposed changes or succession planning that they believe the Board should consider.

Directors' Independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years not been employed in an executive capacity by the company, or been a director after ceasing to hold any such employment
- within the last three years not been a principal of a material professional adviser or a material consultant to the company, or an employee materially associated with the service provided
- not a material supplier or customer of the company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the company other than as a director of the company
- is free from any business or other relationship which could reasonably be perceived to materially interfere with the director's independent exercise of their judgment.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the company or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance. In line with the directors' independence policy, Mr Geoffrey Lord's substantial indirect shareholdings mean that the Board deems him to be not an independent director.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by length of service on the Board. The Board is aware that there are suggestions and various views that directors would be deemed to be not independent if they have served on the Board for a lengthy period of time. The Board considers that it is fortunate to have a number of long serving directors who have contributed significantly to the company over the years.

As our shareholders have regularly re-elected these directors, the Board does not currently consider length of service to be an impairment to independence. The nomination committee will continue to consider this matter of independence of directors and recommend to the Board any future changes that they should consider in relation to composition and appointments of suitable candidates.

At the date of signing the Report of Directors, the Board consists of four independent directors and three non-independent directors. The Board is satisfied that it meets the ASX Corporate Governance recommendation that the majority of the Board should be independent directors.

The Board has established three committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the nomination, remuneration and audit committees. All matters determined by committees are submitted to the full Board as recommendations for Board decision.

Board Members

Details of the members of the Board, their experience, expertise and qualifications are set out in the directors' report under the heading "Information on Directors". There are five non-executive directors, four of whom are deemed independent under the principles set out above, and two executive directors at the date of signing the directors' report.

Term of Office

The company's Constitution specifies that one-third of directors (with the exception of the Managing Director) must retire from office at the annual general meeting.

Chairman and Managing Director

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the company's senior executives. The Managing Director is responsible for implementing all company strategies and policies.

Commitment

The Board meets approximately monthly throughout the year, with the majority of those meetings being held on site at the company.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2012, and the number of meetings attended by each director is disclosed on page 5.

Independent Professional Advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance Assessment

The Board undertakes an annual self assessment of its performance in relation to its leadership, structure, functionality, systems, meetings and relationship with management. This assessment is conducted by the Chairman with the support of the company secretary. An assessment carried out in accordance with this process was undertaken during June 2012.

Board Committees

The Board has established a number of committees to assist in the performance of its duties and to allow more detailed consideration of issues. Current committees of the Board are the nomination, remuneration and audit committees.

Each committee has its own written charter setting out its responsibilities, powers, duties and the manner in which the committee is to operate. All these charters are available on the company website. All matters determined by committees are submitted to the full Board as recommendations for Board decision. Minutes of committee meetings are tabled at the subsequent Board meeting.

Nomination Committee

The nomination committee consists of the following directors:

- Dr R Aston (appointed 18th June 2012)
- Mr A D Blackman
- Dr G L Blackman
- Mr G F Lord
- Dr G N Vaughan (resigned 30th June 2012)

Details of these directors' qualifications, experience and attendance at nomination committee meetings are set out in the directors' report.

The nomination committee operates in accordance with its charter which is available on the company website.

The main responsibilities of the committee are to:

- conduct an annual review of the membership of the Board having regard to present and future needs of the company and to make recommendations on Board composition and appointments
- conduct an annual review of the independence of directors
- propose candidates for Board vacancies
- oversee the annual performance assessment program
- oversee Board succession

When the need for a new director is identified or an existing director is required to stand for re-election, the committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the company. Reappointment of existing directors is not automatic and is contingent on their past performance and contribution to the company.

Principle 3: Promote Ethical and Responsible Decision Making

Quality Policy

The company has developed a Quality Policy which has been fully endorsed by the Board and applies to all directors and employees. The Policy is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the company's integrity and to take into account legal obligations and reasonable expectations of the company's stakeholders.

In summary, the Policy requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

A copy of the Quality Policy is available on the company's website.

Trading in Company Securities

The directors and staff are prohibited to buy or sell shares in the period from 1 July of the year to the release of the announcement of the Company's interim financial report or in the period from 1 January of the year to the release of the announcement of the Company's interim half yearly financial report A director or staff member wishing to buy or sell shares outside the above periods, will advise the Chairman of his/her intention and obtain the Chairman's approval or, in the case of the Chairman, the approval of the Chair of the Company's Audit Committee.

A copy of the Share Trading Policy is available on the company's website.

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Company is committed to diversity, recognises the benefits arising from employee and board diversity, the importance of benefiting from all available talent and has established a diversity policy which is available at the company's website.

The Company considers gender diversity to be a priority, and is committed to building a strong representation of female employees throughout the Group, including executive management. Specific objectives are aimed at women participating in senior leadership roles through identification and mentorship of talented female employees with a view of promotion to management. The Company is making good progress in achieving these objectives.

The proportion of women employees in various positions in the Group at 30 June 2012 are as follows:

Position	2012	2011
Whole Organisation	59%	56%
Senior Executives	44%	38%
Board of Directors	14%	14%

The Company considers the current combination of skills, experience and expertise when assessing the composition of the Board of Directors and deems the present Board to have a mix appropriate to its needs.

Principle 4: Safeguard Integrity in Financial Reporting

Audit Committee

The audit committee consists of the following non-executive directors:

- Mr A D Blackman
- Mr R Burnet
- Dr G N Vaughan (resigned 30th June 2012)
- Mr D Williams (appointed 18th June 2012)

Details of these directors' qualifications and attendance at audit committee meetings are set out in the Directors' Report.

The audit committee operates in accordance with a charter which is available on the company's website.

The main responsibilities of the audit committee are to:

- review, assess and approve the annual report, the half-yearly financial report and all other financial information published by the company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations;
- oversee the effective operation of the risk management framework; and
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.
- consider the independence and competence of the external auditor on an ongoing basis.
- review and approve the level of non audit services provided by the external auditors and ensure it does not adversely impact on auditor independence.
- review and monitor related party transactions and assess their propriety.
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and the external auditors
- meets with the external auditors at least twice a year - more frequently if necessary
- reviews the processes the Managing Director and CFO have in place to support their certifications to the board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external auditors at least once a year without the presence of management
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the audit committee or the Chair of the Board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External Audits

The company and audit committee policy is to appoint external auditors who demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. RSM Bird Cameron Partners was appointed as the auditor in 2006. It is RSM Bird Cameron Partners policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in note 22 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Principles 5 and 6: Make Timely and Balanced Disclosures and Respect the Rights of Shareholders

Continuous Disclosure

The Chairman has been appointed as the person responsible for communications with the ASX. This person is also responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Management are responsible for ensuring that all potential corporate information that could materially effect the price or value of the company's shares is brought to the attention of the Chairman immediately it becomes known. This is then assessed in liaison with the Board and management in regards to the ASX listing rule requirements of 3.1.

All information disclosed to the ASX is posted on the company's web site as soon as it is disclosed to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Shareholder Communication

The company recognises the value of providing current and relevant information to its shareholders through effective communication.

All information disclosed to the ASX announcements platform is available to shareholders on the company website including prior years' announcements. The latest company broker presentation used in analyst's briefings is posted on the company's web site. The current and historical share price details are also available on the web site.

All shareholders have the opportunity to receive the company Annual Report in a hard copy. The company does provide the opportunity to participate through electronic means for receiving the company Annual Report. The current year and prior years company Annual Reports are available on the website.

Principle 7: Recognise and Manage Risk

Risk Assessment and Management

The company's focus on risk management recognises that risk management is, prima facie, an issue for line management. The current risk management framework supports this focus but provides a structured context for those personnel to undertake a yearly review of the past performance of, and to profile the current and future risks facing, their area of responsibility. Management is required to ensure that appropriate controls are in place to effectively manage those risks. Considerable importance is placed on maintaining a strong control environment with the company quality policy. There is an organization structure with clearly drawn lines of accountability and delegation of authority. Adherence to the control environment is required at all times and the Board actively promotes a culture of quality and integrity. This is monitored by the Board through the audit committee, which is responsible for ensuring there are adequate procedures in relation to risk management, compliance and internal control systems. In summary, the company's management is required to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives. In addition, the Board requires that each major proposal submitted to the Board for decision is accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The Environment, Occupational Health and Safety

The company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the company has regular monitoring to facilitate the systematic identification of environmental issues and a formal committee meets monthly to review and discuss relevant health and safety issues. This system has been operating for a number of years and allows the company to:

- monitor its compliance with all relevant legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues

- work with trade associations representing the company's businesses to raise standards, and
- use energy and other resources efficiently.

Information on compliance with significant environmental regulations is set out in the Directors' Report.

Corporate Reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and are in accordance with relevant accounting standards.

- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Principle 8: Remunerate Fairly and Responsibly

Remuneration Committee

The Remuneration Committee consists of the following non-executive directors:

- Mr A D Blackman
- Mr R Burnet
- Mr G F Lord

Details of these directors' qualifications, experience and attendance at Remuneration Committee meetings are set out in the Directors Report.

The remuneration committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Executive Option Plan.

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the company's operations and achieving the company's strategic objectives.

The remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interests associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the Corporations Law and are appropriately disclosed.

Further information on directors' and executives' remuneration is set out in the Directors' Report and note 24 to the financial statements.

For the year ended 30 June 2012

Statement of Comprehensive Income

	Note	2012 $'000	2011 $'000
Revenue from ordinary activities	2	**9,984**	13,097
Raw materials and consumables used		**24**	58
Employee benefits expense		**6,534**	8,067
Depreciation and amortisation expense		**2,864**	2,840
Development costs written-off		**841**	—
Borrowing costs expense		**40**	12
Utilities		**591**	605
Repairs and maintenance		**504**	417
Subject and Screenings		**609**	800
Insurance		**401**	399
Waste Removal		**33**	78
Consumables		**102**	52
Travel		**111**	48
Share Registry		**25**	9
Accounting		**78**	115
Rent		**372**	340
Other expenses		**511**	(16)
(Loss) before income tax	4	**(3,656)**	(727)
Income tax (benefit)	4	**(1,819)**	(491)
(Loss) attributable to members of			
IDT Australia Limited		**(1,837)**	(236)
Other Comprehensive Income			
Shared Based Payment		**—**	68
Total Comprehensive Income		**(1,837)**	(168)
Basic earnings per share	29	**(4.3¢)**	(0.5¢)
Diluted earnings per share	29	**(4.3¢)**	(0.5¢)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

	Note	2012 $'000	2011 $'000
Assets			
Current Assets			
Cash and cash equivalents	5	**13**	1,232
Trade and other receivables	6	**2,806**	2,744
Current tax asset	7	**714**	—
Inventories	8	**1,242**	1,125
Total Current Assets		**4,775**	5,101
Non Current Assets			
Property, plant and equipment	9	**22,884**	24,066
Deferred tax assets	14	**930**	—
Intangible assets	10	**3,186**	3,284
Total Non Current Assets		**27,000**	27,350
Total Assets		**31,775**	32,451
Liabilities			
Current Liabilities			
Trade and other payables	11	**1,345**	772
Borrowings	12	**800**	55
Provisions	15	**1,241**	1,374
Total Current Liabilities		**3,386**	2,201
Non Current Liabilities			
Borrowings	13	**78**	35
Deferred tax liabilities	14	**—**	175
Provisions	15	**176**	1,028
Total Non Current Liabilities		**254**	1,238
Total Liabilities		**3,640**	2,479
Net Assets		**28,135**	29,972
Equity			
Contributed equity	16	**15,377**	15,377
Reserves	17	**1,669**	1,669
Retained profits	18	**11,089**	12,926
Total Equity		**28,135**	29,972

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

For the year ended 30 June 2012

Statement of Changes in Equity

	Note	2012 $'000	2011 $'000
Total Equity at the Beginning of the Year		**29,972**	30,142
Capital raising costs	16	**—**	(2)
Share based payment	17	**—**	68
Net Expense Recognised Directly in Equity		**—**	66
(Loss) for the year		**(1,837)**	(236)
Total Recognised Income and Expense for the Year		**(1,837)**	(170)
Dividend	20	**—**	—
Total Equity at the End of the Year		**28,135**	29,972

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

For the year ended 30 June 2012

Statement of Cash Flow

	Note	2012 $'000	2011 $'000
Cash Flows From Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**10,919**	13,837
Payments to suppliers and employees (inclusive of goods and services tax)		**(10,472)**	(11,070)
		447	2,767
Interest and other costs of finance paid		**(40)**	(12)
Income taxes (paid) / refund		**—**	448
Net Cash Inflow From Operating Activities	**28**	**407**	3,203
Cash Flows From Investing Activities			
Payments for property, plant and equipment		**(1,283)**	(1,427)
Proceeds from sale of property, plant and equipment		**44**	44
Payments for development costs		**(1,138)**	(1,717))
Interest received		**11**	66
Net Cash (Outflow) From Investing Activities		**(2,366)**	(3,034)
Cash Flows From Financing Activities			
Dividends paid		**—**	—
Proceeds from borrowings		**750**	—
Repayment of lease liabilities		**(10)**	(68)
Net Cash (Outflow) From Financing Activities		**740**	(68)
Net Increase / (Decrease) In Cash And Cash Equivalents Held		**(1,219)**	101
Cash and cash equivalents at the beginning of the financial year		**(1,232)**	1,131
Cash And Cash Equivalents At The End Of The Financial Year	**5, 12**	**13**	1,232
Financing arrangements	13		

The above Statement of Cash Flow should be read in conjunction with the accompanying notes.

Notes To And Forming Part Of The Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of Preparation of Financial Report

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

(i) Compliance with IFRS.

The financial statements and notes of IDT Australia Limited comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(b) Change in Accountancy Policy

The company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the previous reporting period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent significant change in information from that previously made available.

(c) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(d) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risk and return that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risk and returns that are different from those of segments operating in other economic environments.

(e) Foreign Currency Translation

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency (Australian Dollars) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investments hedges.

(f) Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(g) Revenue Recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. A sale is recorded when manufactured goods have been despatched to a customer pursuant to a sales order. Service revenue is recognised in accordance with percentage of completion method. The stage of completion is determined by reference to key milestones achieved to date as a percentage of total contractual value.

(h) Trade Receivables

These amounts represent assets for the provision of goods and services provided to a customer pursuant to a valid order or contract. All trade debtors are recognised at the amounts receivable, as they are due for settlement within 30 days of invoice date. Collectability of trade debtors is reviewed on an ongoing basis and a provision is raised where some doubt as to collection exists. Debts which are known to be uncollectable are written off.

(i) Inventories

All inventories are valued at the lower of cost and net realisable value. Cost includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(j) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 5-10 years.

(k) Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases (note 9). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 19). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(l) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, neg of their residual values, over their estimated useful lives, as follows:

- Buildings	40 years
- Machinery	10-15 years
- Vehicles	3-5 years
- Furniture, fittings and equipment	5-10 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(v)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(m) Intangible Assets - Research and Development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Developments costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which is estimated to be 10 years.

(n) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(o) Borrowings

Loans and bills payable are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(p) Maintenance and Repairs

Plant is required to be overhauled on a regular basis. This is managed as part of an on-going major cyclical maintenance program. The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated. Other routine operating maintenance repair costs and minor renewals are also charged as expenses as incurred.

(q) Employee Benefits

(i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The amount for which the company does not have an unconditional right to defer settlement is recorded in other payables as a current liability. The remaining balance is disclosed in non-current liabilities as employee entitlements.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the IDT Australia Limited Executive Option Plan and an Employee Share Scheme. Information relating to these schemes is set out in note 23.

Executive Option Plan

The fair value of options granted under the IDT Australia limited Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

Employee Share Scheme

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(r) Cash and Cash Equivalents

For purposes of the statement of cashflows, cash and cash equivalents includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

(s) Earnings per Share

(i) Basic Earnings per Share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

(u) Non-Current Assets Constructed by the Company

The cost of non-current assets constructed by the company includes the costs of all materials used in construction, direct labour on the project, and an appropriate proportion of directly attributable variable and fixed overheads.

(v) Impairment of Assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable but at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(w) Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(x) New Standards and Interpretations Issued but not yet Effective

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective. These Standards are not expected to significantly impact the Company.

Reference	Title	Summary	Application date (financial years beginning)
AASB 9	*Financial Instruments*	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013(likely to be extended to 2015 by ED 215)
2009-11	*Amendments to Australian Accounting Standards arising from AASB 9*	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12 as a result of the issuance of AASB 9.	1 January 2013
2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127 for amendments to AASB 9 in December 2010	1 January 2013
AASB 13	*Fair Value Measurement*	Provides a clear definition of fair value, a framework for measuring fair value and requires enhanced disclosures about fair value measurement.	1 January 2013
2011-8	*Amendments to Australian Accounting Standards arising from AASB 13*	Amends AASB 1, 2, 3, 4, 5, 7, 9, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132 as a result of issuance of AASB 13 Fair Value Measurement.	1 January 2013
AASB 119	*Employee Benefits*	The amendments to this Standard eliminates the option for defined benefit plans to use the corridor approach to defer the recognition of actuarial gains and losses and introduce enhanced disclosures about defined benefit plans. The amendments also incorporate changes to the accounting for termination benefits.	1 January 2013
2011-10	*Amendments to Australian Accounting Standards arising from AASB 119*	Amends AASB 1, 8, 101, 124, 134, 1049, 2011-8 & Interpretation 14 as a result of the issuance of AASB 119 Employee Benefits.	1 January 2013
2011-4	*Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*	This Standard amends AASB 124 Related Party Disclosures to remove all the individual key management personnel (KMP) disclosures contained in Aus paragraphs 29.1 to 29.9.3.	1 July 2013
2011-9	*Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*	Amends AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049 as a consequence of the issuance of AASB 101 Presentation of Items of Other Comprehensive Income.	1 July 2012
2012-2	*Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*	This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the (potential) effect of netting arrangements. It also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.	1 January 2013
2012-3	*Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*	This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.	1 January 2014
2012-5	*Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*	This Standard makes amendments to AASB 1, 101, 116, 132, 134 & Interpretation 2 as a result from 2009-2011 Annual Improvements Cycle.	1 January 2013

There are no other standards that are not yet effective and that are expected to have a significant impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes To And Forming Part Of The Financial Statements (Continued)

2. Revenue	2012 $'000	2011 $'000
Revenue	9,808	12,770
Other Revenue		
– Government Grants	80	120
– Interest	11	66
– Sale of property, plant and equipment	—	44
– Royalties	85	97
	176	327
Total Revenue	9,984	13,097

3. Expenses		
Profit from ordinary activities before income tax expense includes the following expenses:		
Expenses		
Cost of Goods Sold	1,384	1,731
Finance charges relating to finance leases	6	12
Depreciation of property, plant and equipment	2,446	2,479
Amortisation		
– Finance leases capitalised	23	69
– Development Costs	395	224
Repairs and maintenance	505	417
Development costs written off	841	—
Net foreign currency loss	16	5
Employment structure costs	41	—

4. Income Tax		
(a) Income Tax expense		
Current tax	(714)	—
Deferred tax	(1,105)	(491)
Under (over) provided in prior years	—	—
	(1,819)	(491)
Deferred Income tax (revenue) expense included in income tax expense comprises		
Decrease (increase) in deferred tax assets (note 14)	(538)	(917)
(Decrease) Increase in deferred tax liabilities (note 14)	(567)	426
	(1,105)	(491)

Notes To And Forming Part Of The Financial Statements (Continued)

4. Income Tax (continued)	2012 $'000	2011 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable.		
Profit / (Loss) from ordinary activities before income tax expense	(3,656)	(727)
Prima facie tax expense at 30%	(1,097)	(218)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
– Non deductible entertainment expenses	2	1
– Development costs deduction	(727)	(297)
– Motor vehicle depreciation	3	3
– Share Based payment	—	20
	(1,819)	(491)
Under / (Over) provision in previous year	—	—
Income tax expense attributable to operating profit	(1,819)	(491)
5. Current Assets – Cash And Cash Equivalents		
(a) Cash at bank and on hand	13	1,232
These funds are bearing a floating interest rate of 4.75% (2011: 3.75% to 4.75%)		
6. Current Assets – Trade And Other Receivables		
Trade receivables	2,211	2,248
Less: Provision for doubtful debts	—	—
	2,211	2,248
Other receivables	155	71
Prepayments	440	425
	2,806	2,744

Interest Rate Risk

The company has no material exposure to interest rate risk.

7. Current Assets – Current Tax Asset	2012 $'000	2011 $'000
Income tax receivable	714	—

8. Current Assets - Inventories		2012 $'000	2011 $'000
Raw materials	– at cost	638	569
	– at net realisable value	—	205
		638	774
Work in progress	– at cost	604	351
		1,242	1,125
The valuation policy adopted in respect of inventories is set out in Note 1(i).			

9. Non Current Assets - Property, Plant And Equipment	2012 $'000	2011 $'000
Land and Buildings		
Freehold land at cost	2,608	2,608
Buildings at cost	6,281	6,269
– Less: Accumulated depreciation	(1,663)	(1,506)
Total Land and Buildings	7,226	7,371
Plant and Equipment		
Plant and equipment – at cost	38,527	39,113
– Less: Accumulated depreciation	(22,594)	(22,514)
	15,573	16,599
Plant and Equipment under Finance Lease		
Capitalised cost	120	219
– Less: Accumulated amortisation	(35)	(123)
	85	96
Total Plant & Equipment	15,658	16,695
	22,884	24,066

9. Non Current Assets - Property, Plant And Equipment (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

2012	Freehold Land $ 000	Buildings $ 000	Plant & Equipment $ 000	Plant & Equipment Under Lease $ 000	Total $ 000
Carrying amount at start of year	2,608	4,763	16,599	96	24,066
Additions	—	12	1,271	48	1,331
Disposals	—	—	(8)	(36)	(44)
Depreciation/Amortisation expense	—	(157)	(2,289)	(23)	(2,469)
Carrying amount at end of year	**2,608**	**4,618**	**15,573**	**85**	**22,884**

2011	Freehold Land $ 000	Buildings $ 000	Plant & Equipment $ 000	Plant & Equipment Under Lease $ 000	Total $ 000
Carrying amount at start of year	2,608	4,920	17,610	201	25,339
Additions	—	—	1,907	—	1,907
Disposals	—	—	(596)	(36)	(632)
Depreciation/Amortisation expense	—	(157)	(2,322)	(69)	(2,548)
Carrying amount at end of year	**2,608**	**4,763**	**16.599**	**96**	**24,066**

10. Non Current Assets – Intangible Assets	2012 $'000	2011 $'000
Development expenditure capitalised (Note 1(m))	**3,983**	3,952
– Less: Accumulated amortisation	**(797)**	(668)
	3,186	3,284
Reconciliation of Intangible Assets		
Carrying amount at start of year	**3,284**	1,791
Development expenditure capitalised during the year	**1,138**	1,717
Amortisation of development costs during the year	**(395)**	(224)
Development costs – written off during the year	**(841)**	—
Carrying amount at end of year	**3,186**	3,284

11. Current Liabilities – Trade And Other Payables		
Trade payables	**1,001**	534
Other payables	**344**	238
	1,345	772

Notes To And Forming Part Of The Financial Statements (Continued)

12. Current Liabilities - Borrowings	2012 $'000	2011 $'000
Lease liabilities (Note 19)	**50**	55
Commercial bills payable	**750**	—
Total current borrowings	**800**	55

All current interest bearing liabilities are secured.
Details of the security relating to each of these liabilities is set out in Note 13.

13. Non Current Liabilities - Borrowings		
Lease liabilities (Note 19)	**78**	35
Total Non Current Borrowings	**78**	35
All non current interest bearing liabilities are secured.		
Secured Liabilities		
Total Secured Liabilities (current and non-current)		
Lease Liabilities	**128**	90
	128	90

Security for Borrowings

The bank overdraft, bills payable and lease liabilities are secured by the following:

- A Registered Mortgage over property situated at 39 Wadhurst Drive, Boronia
- A Registered Mortgage over property situated at 41 Wadhurst Drive, Boronia
- A Registered Mortgage over property situated at 43-49 Wadhurst Drive, Boronia
- A Registered Mortgage over property situated at 51-57 Wadhurst Drive, Boronia
- A Registered Mortgage over property situated at 68 Wadhurst Drive, Boronia

Lease Liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Financing Arrangements

Unrestricted access was available at balance date to the following lines of credit:

Total facilities		
– Multi-Option Facility	**1,000**	1,000
– Lease Facility	**650**	900
– Flexible Rate Loan	**2,750**	2,500
Used at balance date		
– Multi-Option Facility	**—**	—
– Lease Facility	**128**	90
– Flexible Rate Loan	**750**	—
Unused at balance date		
– Multi-Option Facility	**1,000**	1,000
– Lease Facility	**522**	810
– Flexible Rate Loan	**2,000**	2,500

13. Non Current Liabilities - Borrowings (continued)	2012 $'000	2011 $'000
Assets Pledged as Security The carrying amounts of specific assets pledged as security are:		
Freehold land and buildings	7,226	7,371
Plant and equipment under finance lease	85	96
Total Assets pledged as security	7,311	7,467

14. Non Current Liabilities - Deferred Tax Liabilities		
Deferred Liability	2,437	3,004
The balance comprises temporary differences attributable to:		
Depreciation	1,481	2,170
Development costs	956	834
	2,437	3,004
Movements		
Opening balance at 1 July	3,004	2,577
Charged / (Credited) to the Statement of Comprehensive Income	(567)	427
Closing balance at 30 June	2,437	3,004
Deferred Tax Assets The balance comprises temporary differences attributable to:	3,367	2,829
Employee Entitlements	431	430
Tax Losses	2,936	2,399
Movements		
Opening balance at 1 July	2,829	1,911
(Charged) / Credited to the Statement of Comprehensive Income	538	918
Closing balance at 30 June	3,367	2,829
Net Deferred Tax Liability	930	(175)
Deferred tax liability expected to settle within 12 months	—	—
Deferred tax liability expected to settle more than 12 months	2,437	3,004
	2,437	3,004
Deferred tax asset expected to be recovered within 12 months	—	—
Deferred tax asset expected to be recovered after more than 12 months	3,367	2,829
	3,367	2,829

15. Non Current Liabilities - Provisions		
Current		
Employee entitlements	1,241	1,374
Non Current		
Employee entitlements	176	68

16. Contributed Equity	2012 Shares	2011 Shares	2012 $ 000	2011 $ 000
(a) Paid up capital - Ordinary shares, fully paid	43,192,059	43,096,059	15,377	15,377

(b) Movements in ordinary share capital of the company during the past two years were as follows:

Date	Details	Notes	No. of Shares	$ 000
30 June 2010			43,096,294	15,379
July 2010	IDT Employee Share Plan Issue	(c)	95,765	(2)
30 June 2011			43,192,059	15,377
	IDT Employee Share Plan Issue	(c)	—	—
30 June 2012			43,192,059	15,377

(c) IDT Employee Share Plan

During the year the Company did not issue any (2011: 95,765) ordinary shares under the rules of the IDT Australia Limited Employee Share Plan.

(d) Ordinary Shares

Ordinary Shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

17. Reserves	2012 $'000	2011 $'000
Share-based payments reserve	**1,669**	1,669
Movements in share-based payment reserve		
Balance 1 July	**1,669**	1,601
Option expense	**—**	—
Employee share issue expense	**—**	68
	1,669	1,669

Nature and purpose of reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised and the fair value of shares issued under the IDT Australia Limited Employee Share Plan. Refer note 23.

18. Retained Profits		
Retained profits at the beginning of the financial year	**12,936**	13,162
Net (loss) attributable to members of IDT Australia Limited	**(1,837)**	(236)
Dividends provided for or paid	**—**	—
Retained profits at the end of the financial year	**11,089**	12,926

Notes To And Forming Part Of The Financial Statements (Continued)

19. Commitments For Expenditure	2012 $'000	2011 $'000
(a) Finance Leases		
Commitments in relation to finance leases are payable as follows:		
– Within one year	**59**	55
– Later than one year but not later than 5 years	**83**	44
Minimum lease payments	**142**	99
Less: future finance charges	**(14)**	(9)
Total lease liability	**128**	90
Representing lease liabilities:		
– Current (Note 12)	**50**	55
– Non current (Note 13)	**78**	35
Total	**128**	90
The weighted average interest rate implicit in the leases is 8.4% (2011 7.7%).		
(b) Capital Commitments		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:		
– Within one year	**—**	—
– Later than one year but not later than 5 years	**—**	—
– Later than 5 years	**—**	—
	—	—
(c) Operating Leases		
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
– Within one year	**265**	337
– Later than one year but not later than 5 years	**797**	1,045
– Later than 5 years	**—**	—
	1,062	1,382

Notes To And Forming Part Of The Financial Statements (Continued)

20. Dividends	2012 $'000	2011 $'000
Ordinary		
Final dividend for the year ended 30 June 2011 paid at nil cents (2010 : nil cents)		
Franked @ 30%	—	—
Interim dividend for the year ended 30 June 2012 declared at nil cents (2011 : nil cents)		
Franked @ 30%	—	—
	—	—
No final dividend has been declared for the financial year ended 30 June 2011		
Franking credits available for the subsequent financial year	**4,442**	4,442

The above amounts represent the balances of the franking account as at the end of the financial year, adjusted for:
(a) franking credits that will arise from the payment of income tax payable as at the end of the year;
(b) franking debits that will arise from the payment of dividends proposed as at the end of the year; and
(c) franking credits that may be prevented from being distributed in the subsequent year.
Franking credits available for subsequent financial years are based on a tax rate of 30%.

21. Receivables And Payables Denominated In Foreign Currencies		
Amounts not effectively hedged		
Receivables – Current		
United States dollars	**—**	—

22. Auditor's Remuneration	$	$
Total amounts receivable by RSM Bird Cameron Partners for:		
(a) Audit and review of the company's financial statements	**73,000**	70,000
(b) Other services	**540**	11,000
	73,540	81,000

Unless otherwise approved by the Board, it is company policy that RSM Bird Cameron Partners will not be appointed or retained to provide any other services outside their statutory audit duties as auditors of the company.

23. Share Based Payments

Executive Share Option Plan

The establishment of the IDT Australia Limited Executive Share Option Plan was approved by a General Meeting of the company held on 16 May 1995. Senior executives (including directors of IDT Australia Limited) are eligible to participate in the plan.

The number of unissued ordinary shares under the options at 30 June 2012 is nil.

Options are granted under the IDT Australia Limited Executive Option Plan terms and conditions. Options are granted under the plan for no consideration. Options are granted for a four year period and vest immediately when they are granted.

There were no options issued in this reporting period under the IDT Australia Limited Executive Option Plan.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted or at a premium to this price as the Directors may determine.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to executive directors and other executives, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Employee Share Plan

The establishment of the IDT Australia Limited Employee Share Plan was approved at the Annual General Meeting held on 29 October 1999. During the year ended 30th June 2012, the Company did not issue ordinry share under the rules of the IDT Australia Limited Employee Share Plan.

Under the scheme, eligible employees may be offered up to $1,000 worth of fully-paid ordinary shares in IDT Australia Limited annually for no cash consideration. The market value of shares issued under the scheme, measured as the weighted average market price on the day of issue of the shares, is recognised in the income statement as part of employee benefit costs in the period the shares are granted.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment with the company. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the date of the offer.

Expenses arising from Share-based Payment Transactions	2012 $'000	2011 $'000
Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expenses were as follows:		
Options issued under executive option plan	—	—
Shares issued under employee share plan	—	68
	—	68

Notes To And Forming Part Of The Financial Statements (Continued)

24. Key Management Disclosures

Directors

The following persons were directors of IDT Australia Limited during the financial year:

GL Blackman, Chairman

R Elliott, Managing Director

Non Executive Directors:

A Blackman

G Vaughan (resigned 30 June 2012)

G Lord

R Burnet

D Williams

R Aston (appointed 20 March 2012)

Key Management Personnel

The following persons also have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year:

Name	Position
R Woods	R&D Manager (resigned 25 November 2011)
R Najdecki	Chief Financial Officer
J Kelly	General Manager, CMAX
P Elliott	Quality Manager

All of the above persons were also Key Personnel Management during the year ended 30 June 2012.

Key Management Personnel Compensation	2012 $'000	2011 $'000
Directors and Key Management Personnel		
Short term employee benefits	**1,487,858**	1,521,372
Post employment benefits	**186,394**	175,920
Long term benefits	**19,972**	28,655
Share based payments	**—**	4,000
	1,694,234	1,729,947

24. Key Management Disclosures (continued)

Share Holdings

The number of shares in the company held during the financial year by each director of IDT Australia Limited and each of the five specified executives are set out below.

2012	Balance at Start of Year	Employee Share Issue	Other Changes During the Year	Balance at the end of the Year
Directors				
A D Blackman	129,600	—	—	129,600
R Burnet	417,400	—	—	417,400
G F Lord	5,646,499	—	46,755	5,693,254
G N Vaughan	304,400	—	6,000	310,400
Executive Directors				
G L Blackman	5,830,313	—	—	5,830,313
R Elliott	6,851	—	—	6,851
Other Executives				
R Woods	88,504	—	—	88,504
P Elliott	3,916	—	—	3,916
J Kelly	4,428	—	—	4,428

2011	Balance at Start of Year	Employee Share Issue	Other Changes During the Year	Balance at the end of the Year
Directors				
A D Blackman	129,600	—	—	129,600
R Burnet	417,400	—	—	417,400
G F Lord	5,646,499	—	—	5,646,499
G N Vaughan	304,400	—	—	304,400
Executive Directors				
G L Blackman	5,830,313	—	—	5,830,313
R Elliott	6,851	—	—	6,851
Other Executives				
R Woods	87,042	1,462	—	88,504
A McKenzie	9,954	1,462	—	11,416
P Elliott	2,454	1,462	—	3,916
J Kelly	2,966	1,462	—	4,428

24. Key Management Disclosures (continued)

Unlisted Options

The number of unlisted options in the company held during the financial year by each director of IDT Australia Limited and each of the key executives are set out below. All options granted were part of a 1 for 10 bonus options issue offered to all shareholders in April 2010.

2012	Balance at Start of Year	Granted During the Year	Lapsed During the Year	Balance at the end of the Year
Directors				
A D Blackman	—	—	—	—
R Burnet	—	—	—	—
G F Lord	—	—	—	—
G N Vaughan	—	—	—	—
Executive Directors				
G L Blackman	—	—	—	—
R Elliott	—	—	—	—
Other Executives				
R Woods	—	—	—	—
P Elliott	—	—	—	—
J Kelly	—	—	—	—

2011	Balance at Start of Year	Granted During the Year	Lapsed During the Year	Balance at the end of the Year
Directors				
A D Blackman	12,960	—	12,960	—
R Burnet	41,470	—	41,470	—
G F Lord	564,651	—	564,651	—
G N Vaughan	30,440	—	30,440	—
Executive Directors				
G L Blackman	583,031	—	583,031	—
R Elliott	686	—	686	—
Other Executives				
R Woods	8,704	—	8,704	—
A McKenzie	995	—	995	—
P Elliott	175	—	175	—
J Kelly	228	—	228	—

25. Financial Reporting By Segments

The company operates predominantly in the pharmaceutical industry. The principal activities of the company are the provision of products and research and development and other technical services for the pharmaceutical and allied industries.

The company operates predominantly in one geographical area, being Australia.

All company assets are located in one geographical area, being Australia.

Sales Revenue

The company identifies revenue from external customers in board reporting across Fee for Service, Manufacturing and Clinical Trials.

2012	USA $'000	Europe $'000	Australia $'000	TOTAL $'000
Fee for Service	1,686	443	920	3,049
Manufacturing	1,124	1,368	—	2,492
Clinical Tests	2,950	88	1,229	4,267
Total	**5,760**	**1,899**	**2,149**	**9,808**

2011	USA $000	Europe $000	Australia $000	TOTAL $000
Fee for Service	1,265	349	1,081	2,695
Manufacturing	467	2,086	149	2,702
Clinical Tests	2,323	182	4,868	7,373
Total	**4,055**	**2,617**	**6,098**	**12,770**

One customer exceeded 10% of the company's total sales revenue in 2012. (2011: 1 customer)

26. Financial Risk Management

The company's activities expose it to a variety of financial risks; market risk (including currency risk, and fair value interest rate risk), credit risk, and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

Risk management is carried out by management under procedures approved by the Board of Directors. Management identifies and evaluates financial risks in close cooperation with the Board of Directors. The Board provides guidance for overall risk management, such as mitigating foreign exchange, interest rate and credit risks, and investing excess liquidity.

The Company holds the following financial instruments:

	2012 $'000	2011 $'000
Financial Assets		
Cash and cash equivalents	**13**	1,232
Trade and other receivables	**2,806**	2,744
Total Financial Assets	**2,819**	3,976
Financial Liabilities		
Trade and other payables	**1,345**	772
Borrowings	**878**	90
Total Financial Liabilities	**2,223**	862
Net Financial Position	**596**	3,114

26. Financial Risk Management (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The company operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar in billings and purchase of major equipment. It is company policy to contract and invoice predominantly in Australian dollars where possible.

The company is exposed to foreign currency risk at 30 June 2012, as is detailed in Note 21. Movements in foreign currency exchange rates are unlikely to have a material impact on the financial position of the company.

(ii) Fair value interest rate risk

Refer to (d) on the following page.

(b) Credit risk

The company has no significant concentrations of credit risk. The company has procedures in place to ensure that sales of products and services are made to customers with an appropriate credit history. The company has procedures in place to limit and manage the amount of credit exposure to any one customer.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to adequately fund cash flow requirements. Due to the dynamic nature of the underlying businesses, management aims at maintaining flexibility in funding by keeping committed credit lines available.

Interest Rate Exposures

2012	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Total $'000
Liabilities								
Lease Liabilities	—	50	60	14	4	—	—	128
Commercial Bills	—	750	—	—	—	—	—	750
	—	800	60	14	4	—	—	878
Weighted Average Interest Rate	—	8.4%	8.4%	8.4%	8.4%	—	—	

2011	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $ '000	Total $'000
Liabilities								
Lease Liabilities	—	55	17	18	—	—	—	90
Commercial Bills	—	—	—	—	—	—	—	—
	—	55	17	18	—	—	—	90
Weighted Average Interest Rate	—	7.6%	7.6%	8.1%	—	—	—	

26. Financial Risk Management (continued)

(d) Cash flow and fair value interest rate risk

As the company has no significant interest-bearing assets, the company's income and operating cash flows are not materially exposed to changes in market interest rates.

The company's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. Borrowings issued at fixed rates expose the company to fair value interest-rate risk. The company's interest rate exposures at 30 June 2012 are detailed in Note 13.

There are no material differences between balance sheet values and fair values of financial assets and liabilities. The company is not materially exposed to financial risk in relation to net fair values of financial assets and liabilities.

27. Related Party Transactions

Directors

The names of persons who were directors of the company at any time during the financial year are G L Blackman, A D Blackman, R Burnet, G N Vaughan, G F Lord, D Williams, R Aston and R Elliott.

Key Management Personnel

The following persons also have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year:

Name	Position
R Najdecki	Chief Financial Officer
J Kelly	General Manager, CMAX
P Elliott	Quality Manager
R Woods	R&D Manager (resigned 25 November 2011)

Transactions of Directors and Key Management Personnel Concerning Shares or Share Options

The transactions relating to dividends were on the same terms and conditions that applied to other shareholders.

The aggregate amounts of each of the above types of other transactions with directors and key management personnel were as follows:

	2012 $	2011 $
Dividends Paid	—	—

27. Related Party Transactions (continued)	2012 Shares	2011 Shares
Ordinary shares acquired	**52,755**	5,848
Ordinary shares disposed	**—**	—
The terms and conditions of transactions relating to shares were on the same basis as similar transactions with other shareholders.		
Aggregate numbers of shares of IDT Australia Limited held directly, indirectly or beneficially by directors or key management personnel at balance date were as follows: Ordinary shares	**12,496,082**	12,443,327

Information relating to Share Option transactions is set out in Note 24.

Other Transactions with Directors and Key Management Personnel

A director, Mr D Williams, is a director of Medical Developments International Limited. IDT Australia Limited had entered into a contract to provide services to Medical Developments International Limited on normal commercial terms and conditions and at normal commercial rates.

Aggregate Amount of Other Transactions with Directors and Key Management Personnel

	2012 $	2011 $
Professional Services	**255,000**	—
Reimbursment of Costs	**16,386**	—
	271,386	—

28. Reconciliation Of Net Cash Inflow From Operating Activities To Operating Profit After Income Tax	2012 $'000	2011 $'000
Net cash inflow from operating activities	**407**	3,203
Depreciation and amortisation	**(2,864)**	(2,840)
Development costs written-off	**(841)**	—
Interest income	**11**	66
Net loss on sale of non current assets	**—**	(1)
Non-cash share based payment	**—**	(67)
Change in operating assets and liabilities		
(Decrease)/Increase in receivables	**62**	(948)
(Decrease)/Increase in inventories	**117**	428
(Increase)/Decrease in payables	**(573)**	(74)
(Increase)/Decrease in provision for deferred income tax	**1,105**	491
(Increase)/Decrease in other current tax	**714**	—
(Increase)/Decrease in other provisions	**25**	(494)
Operating (loss) after income tax	**(1,837)**	(236)

Notes To And Forming Part Of The Financial Statements (Continued)

29. Earnings Per Share	2012 $	2011 $
Basic earnings per share	**(4.3¢)**	(0.5¢)
Diluted earnings per share	**(4.3¢)**	(0.5¢)
Weighted average number of ordinary shares on issue during the year used in calculation of basic earnings per share	**43,192,059**	43,130,927
Weighted average number of ordinary shares on issue during the year used in the calculation of diluted earnings per share	**43,192,059**	43,130,927
Basic Earnings per share Profit/(Loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(1,837)**	(236)
Diluted earnings per share Profit/(Loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(1,837)**	(236)

Information Concerning the Classification of Securities

Options

Options granted to managers and directors under the IDT Australia Limited Executive Share Option Plan are considered to be dilutive potential ordinary shares where the exercise price is less than the share price as at 30 June 2012. Only these potential ordinary shares have been included in the determination of diluted earnings per share.

No options have been included in the determination of basic earnings per share. Details relating to options are set out in Note 23.

30. Critical Accounting Estimates And Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies.

Future economic benefit of capitalised development costs.

The company applies AASB 138 Intangible Assets to determine the adequacy of the carrying value of the capitalised development costs. Judgement is applied to periodically assess the appropriateness of the carrying value.

In making this judgement, the company makes reasonable and supportable assumptions to best represent management's estimate of the economic conditions that will exist over the useful life of the asset. In particular, the company evaluates, amongst other factors, the technical feasibility to complete the project, the existence of a market for the output and future sales contracts to conclude on the probability that expected future economic benefits will flow to the entity.

Where it is considered there is no longer a market for a project, the company recognises an impairment in accordance with AASB 136 Impairment of Assets.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 22 to 49 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance, as represented by the result of it's operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) 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

(c) the financial statements and notes thereto also comply with International Financial Reporting Standards as disclosed in Note 1.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

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

Dr Graham L Blackman OAM
Director

Robert Burnet
Director

Melbourne
27 August 2012

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

IDT AUSTRALIA LIMITED

Report on the Financial Report

We have audited the accompanying financial report of IDT Australia Limited ("the company"), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 about 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 opinions.

RSM Bird Cameron Partners

Independence

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

Opinion

In our opinion:

(a) the financial report of IDT Australia 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 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the 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 8 to 11 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of IDT Australia Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

Miano

R B MIANO
Partner

27 August 2012
Melbourne, VIC

Shareholder Information

The shareholder information set out below was applicable as at 2 August 2012.

A. Distribution Of Equity Securities

Analysis of numbers of equity security holders by size of holding:

No. of Fully Paid Ordinary Shares Held	Ordinary Shares
1 - 1,000	576
1,001 - 5,000	766
5,001 - 10,000	280
10,001 - 100,000	387
100,001 - over	47
	2,056

There were 720 holders of less than a marketable parcel of ordinary shares.

B. Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are listed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares
1. Graeme Leslie Blackman	5,830,313	13.53
2. Paulene Blackman	4,492,737	10.43
3. Belgravia Strategic Equities Pty Ltd	2,796,419	6.49
4. Keygrowth Pty Ltd	2,332,116	5.44
5. Coven-SA Ltd	782,300	1.82
6. Mr Anthony Huntley	776,265	1.80
7. Debuscey Pty Ltd	746,800	1.73
8. Extra Edge Pty Ltd	700,106	1.62
9. David & Judith Clarke	570,000	1.32
10. Geoffrey & Nanette Lord and Ronald Peck <GNR Superannuation Fund A/C>	461,247	1.07
11. Avanteos Investments Limited	417,400	0.97
12. National Nominees Limited	410,000	0.95
13. Picherit's Farm P/L <Huntley Super Fund A/C>	356,090	0.83
14. United Portfolio Holdings P/L	350,000	0.81
15. Dr Geoffrey Norman Vaughan	310,400	0.72
16. Papl Ebsco P/L <Rand Super Fund>	300,000	0.70
17. Mrs Xenia Joan Williamson	300,000	0.70
18. Charles & Jayne Farquharson	299,900	0.70
19. Mirlex Pty Ltd	273,070	0.63
20. Dixon Trust Pty Limited	244,826	0.57
	22,749,989	52.80

C. Substantial Holders

Substantial holders in the company are set out below:

Ordinary Shares	Number Held	Percentage
Graeme Leslie Blackman	5,830,313	13.52
Belgravia Group Pty Ltd	5,693,254	13.20
Paulene Blackman	4,492,737	10.42

D. Voting Rights

A registered holder of shares in the company may attend general meetings of the company in person or by proxy and on a poll may exercise one vote for each share held.

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