ANNUAL REPORT 2010

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED

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MESSAGE FROM THE CHAIRMAN

On behalf of Advanced Surgical Design & Manufacture Limited's Board of Directors, I am pleased to present this Annual Report for the year ended 30 June 2010.

During the years there has been a large increase in surgeons using our core product "Active Total Knee Replacement"

The 2010 financial year was one of many achievements and the continued evolution of ASDM as a key Australian medical device company competing on the global stage. We now have more surgeons locally and internationally using our core product the Active Total Knee than ever before and our global footprint continues to grow. Added to this, our network of collaborators has expanded and our capability to deliver outcomes is enhanced by the great team at ASDM.

These skills of delivering innovative and high quality products to market, was further enhanced by the sale of our Uni Compartmental Knee System during the year to Stryker Corporation. The proceeds of the transaction were re-invested into the continued development of our orthopaedic products and supporting the development of the Peripheral Access Device "PAD".

During the year, we have maintained our business focus and leveraged off our existing sales and marketing infrastructure to drive sales growth in our existing orthopaedic medical devices while continuing to move the development of innovative medical devices.

It has taken time to position ASDM into a respected and intellectually resource rich company since it was established in 1994 and we now have all the key elements in place to realise significant growth. We have established our Australian sales presence and expanded into Europe and the United States in a controlled manner which will yield further growth opportunities.

ASDM continues to enjoy a strong and supportive shareholder base and receives regular feedback on our achievements which is extremely empowering. Another pleasing outcome is that successful patient outcomes are continuing to be fed back to our specialised team at all levels providing strong motivation for us all.

ASDM was pleased to welcome Mr John O'Meara as a non-executive director in March 2010 and Mr Michael Spooner in September 2010. John is a seasoned strategy and project manager with over 25 years experience in strategic planning and the execution of large scale, complex and deadline dependent projects. Michael is a well-known and respected business leader who has an extensive network of relationships with investment firms and business communities across the globe, having spent the majority of the past 25 years living and working internationally. Both new board members add tremendously to the depth we now have at ASDM.

Your company is in a strong position to move ahead, with a growing orthopaedic business and the ability to bring new products to market using our innovative skills in design, our expertise in manufacturing and regulatory controls and our local and international sales and marketing abilities. I take this opportunity to thank my fellow board members for their continued contribution to the growth and guidance of the Company and we look forward to ASDM continuing on its path of being a key partner with innovators to deliver healthcare solutions to patients.

Peter Kazacos
Chairman

ASDM

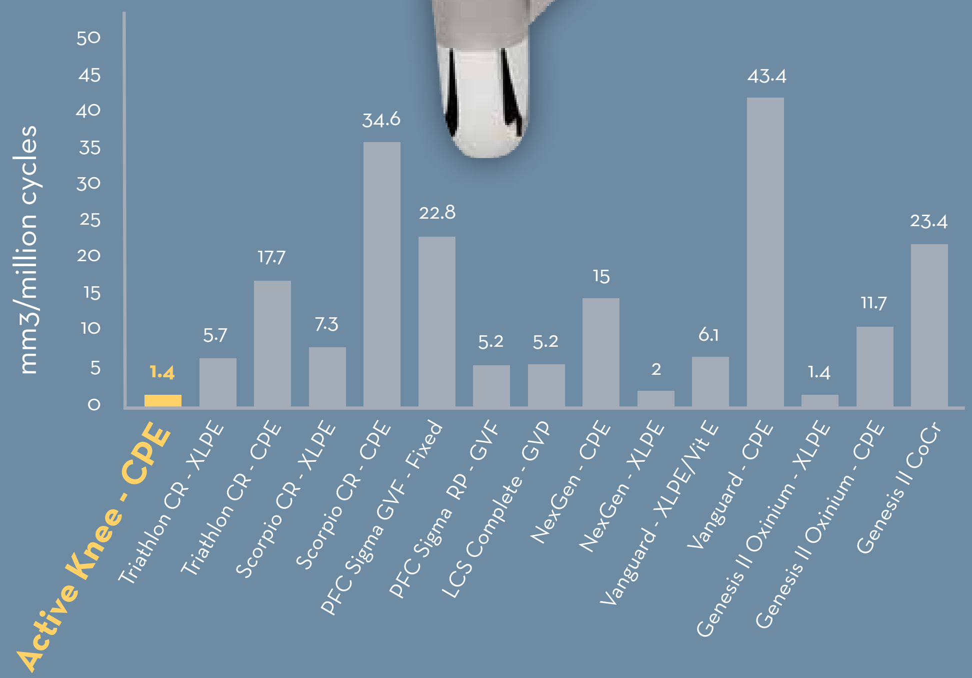
Active Total Knee

Has the industry's lowest volumetric wear rates

equals
Longer implant life

equals
Excellent results

equals
Better patient results



CPE - means conventional polyethylene, XLPE - means cross-linked polyethylene, GVF - means gamma vacuum foil packaging method

Disclaimer: Data was obtained from published in-vitro wear test reports. Wear rate is one of the numerous factors which influence clinical success of total knee replacement.

CEO & MANAGING DIRECTOR'S REPORT

ASDM has taken major strides forward in growing our sales team and product portfolio over the past year. Additionally, ASDM continues to invest in new product development to ensure a strong and stable pipeline of new products to build revenues and profitability.

During the financial year ended 30 June 2010, the company achieved a number of significant milestones including:

- Peripheral Access Device ("PAD") Class IIa registration (for uses other than for high pressure pumping);
- Sale of the intellectual property relating to the Uni-Compartmental Knee to Stryker Corporation;
- Granting of Class III CE Marking for the Active Total Knee Replacement system in Europe;
- First sales of the Active Total Knee Replacement system into Continental Europe through a Distributor in Greece;
- United States FDA Registration for Posterior Stabilised Active Knee Range;
- Presentation of PAD Pilot Trial Results at the Association of International Vascular Surgeons Conference;
- Ethics approval of a major multi-centre trial for the PAD, with first patient treated and released from hospital;
- Establishing a direct sales presence in Europe through acquisition of the UK distributor;
- Continued expansion into the US;
- Expansion of our sales force into South Australia and Queensland; and
- Maintaining a positive operating cash flow position

The main strength of ASDM's product portfolio, our Orthopaedic products, continue to find new markets. We have also committed to a strong research and development effort in our Total Knee Replacement (TKR) and in other orthopaedic devices such as the Carpal Plate and Cardinal Screw system for ACL reconstructions. Our strong focus on research and product development, along with partnering with innovative surgeons from Australia and world wide remains the cornerstone of ASDM's future development. The focus on achieving this growth is matched by efforts in reducing the costs of manufacture and driving improvements in delivery efficiency.

ASDM's Active Knee has been in successful use for more than 18 years now, having pioneered a number of innovative features, such as the "gender" knee, ultra-polishing and "hi-flex" femoral design. Over the period of use of the Active Knee we have added a cemented version, posterior stabilising and a revision surgery range, to cater for virtually all surgical eventualities. We have one of the largest ranges of implant sizing to ensure the ideal fit for each patient. Combined with our other product developments, high tibial osteotomy systems and ACL reconstructions, as well as our range of innovative products from international scientists and doctors, we are able to assist in the treatment of the knee for all age groups.

CEO & MANAGING DIRECTOR'S REPORT Continued

Throughout the past year ASDM has helped drive the development of the PAD vascular access device and the HELP treatment for limb saving. We have initiated a clinical trial for this treatment, of which we are the sponsor, and have the exclusive manufacturing rights for the device, both for the purpose of limb saving and also for its use in chemotherapy delivery and other uses.

The foundation of our success is our people. Our progress over this year and the achievement of a number of significant milestones would not have been possible without the exceptional efforts and dedication of our management team and highly specialised staff. I am extremely grateful for their important contributions and grateful as well to our shareholders for their support.

Innovation and experience are key elements for a successful medical device company and we are very fortunate at ASDM that we have a team that can deliver on these qualities. As a result we continue to be recognised as an organisation with the ability to deliver innovations to market and are highly sought after by industry, research organisations and early stage companies to partner with their innovative ideas.

With a growing sales team, a rich and full pipeline of innovative products and an established range of well proven and successful orthopaedic products ASDM is well positioned to deliver continued growth in shareholder value. The Board and Management are actively seeking new growth opportunities to leverage off our experience and skills for even greater growth in value of ASDM.

Dr Greg Roger
Chief Executive Officer/Managing Director

DIRECTORS' REPORT 30 June 2010

The directors present their report on the consolidated entity (referred to hereafter as the ' consolidated entity') consisting of Advanced Surgical Design & Manufacture Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2010.

DIRECTORS

The following persons were directors of Advanced Surgical Design & Manufacture Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter Kazacos
Gregory James Roger
Walter Kmet
John O'Meara (appointed on 1 March 2010)
Michael Spooner (appointed on 13 September 2010)

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity consisted of the sale, manufacture and design of surgical implants.

DIVIDENDS

There were no dividends paid during the current or previous financial year.

REVIEW OF OPERATIONS

The loss for the consolidated entity after providing for income tax amounted to $896,000 (30 June 2009: $1,025,000).

Revenue

Total revenue for the year ended 30 June 2010 ('FY10') was $7.4m, a 16% increase from the 2009 financial year ('FY09'). Core product sales growth was 8% with pricing across product lines remaining strong.

During the year, ASDM completed the sale of the intellectual property of the Uni-Compartmental Knee to Stryker. This accounted for a positive year on year variance in product revenue of $0.4m.

We continue to see new surgeon acceptance in all our market segments and greater penetration of our consumable products domestically.

Loss from ordinary activities

ASDM continues on a growth path in terms of existing products, markets and new product development. During the period our rollout of our strategy continued successfully and remains on track.

During the year a significant milestone was reached with the PAD granted Class IIa classification from the Therapeutic Goods Administration (TGA) – proving device efficacy.

As a result the earnings before interest, tax and depreciation and amortisation ('EBITDA') recorded a profit of $0.6m compared to an EBITDA loss of $0.7m in FY09, an improvement of $1.3m on FY09. During the financial year we completed a further 20 instrument sets, taking our current total of new instrument sets to 40 with the remaining 10 sets due for completion in the first half of FY11. This will allow us to further strengthen our marketing push both domestically and internationally. The continued development of these instruments sets continues to have a margin impact on non recoverable manufacturing costs, due to manufacturing tooling and methods refinement. Feedback from surgeons in the field is that the quality and design of these instruments is world class.

The rollout of the sales and marketing strategy via geographic diversification of our business has marginally increased sales and marketing costs during FY10. The total knee replacement is one of the strongest surgeon preference items in orthopaedics but traditionally has a significant time lag between sales and marketing expenses and revenue growth.

During the year we also continued to invest approximately 18% of revenue into our Research and Development ('R&D') an increase of 3% on FY09, with a significant focus being the continued development of the PAD. The focus on this innovation led to the successful Class IIa approval for this device in early August 2009. The Class IIa approval allows the device to be sold for vascular access purposes in Australia and Europe. In April 2009 a 40-patient clinical trial of a surgical technique, using the PAD, was registered by the Therapeutic Goods Administration (TGA) having been approved by the Northern Sydney Central Coast Area Health Ethics Committee.

DIRECTORS' REPORT 30 June 2010 Continued

Corporate and administration costs decreased in line with expectations. During last financial year, our first full year as a listed entity, a number of costs were incurred which were not recurring in 2010.

Net loss before tax was $0.6m, compared to a net loss before tax of $1.6m in FY09. The net loss after tax was impacted by a deferred tax recognised in FY10 of $600k. The group is required to reassess both recognised and unrecognised deferred tax assets at the end of each reporting period which resulted in the aforementioned adjustment. This result is after the expensing of all research and development related expenses.

Earnings per share for FY10 was a loss of 2.54 cents per share, a decrease from a loss of 2.90 cents for FY09.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Advanced Surgical Design & Manufacture (UK) Limited
On 1 April 2010, ASDM Holdings Pty Limited, a subsidiary, acquired 100% of the ordinary shares of Advanced Surgical Design & Manufacture (UK) Limited (incorporated in the United Kingdom) for $17,000. The principal activity of Advanced Surgical Design & Manufacture (UK) Limited is the sale and distribution of surgical implants.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The consolidated entity has refinanced its existing facility with a new asset finance facility of $1.6m with the Commonwealth Bank which will provide it with additional working capital in excess of $750,000.

The consolidated entity announced the appointment of Mr Michael Spooner as a Non-Executive Director on 13 September 2010.

No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

INFORMATION ON DIRECTORS

Name: **Peter Kazacos**

Title: Non-Executive Director and Chairman

Qualifications: B.E, B.Sc.

Experience and expertise:
Mr Kazacos has over 35 years experience in the IT industry. He founded KAZ in 1988, guided it from a small IT services company in NSW to one of Asia Pacific's leading IT services and business process outsourcing service providers with over 4,000 employees, as a fully owned subsidiary of Telstra. He also founded Anittel Ltd, building it into one of Australia's leading IT&C service providers operating outside the major metropolitan areas, leading to its acquisition in 2010 by Hostech Limited, representing a major strategic milestone in the transformation and convergence of the IT&T industry. Prior to founding KAZ and Anittel, Mr Kazacos held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Mr Kazacos was the recipient of the inaugural Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category. Mr Kazacos has been inducted into the Hall of Fames at both the IT&T Awards and ARN IT Industry Awards and is also the recipient of the prestigious CSIRO Tony Benson Award for Individual Achievement in ICT.

Other current directorships: Executive Chairman of Hostech Limited

Former directorships (in the last 3 years): None

Special responsibilities: Chairman of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee

Interests in shares: 715,810 ordinary shares

Interests in options: 106,000 options over ordinary shares

Name: **Dr Gregory James Roger**

Title: Executive Director and Chief Executive Officer

Qualifications: MB BS, M Eng (Res)

Experience and expertise:
Associated Professor Dr Roger, following his Medical Degree at Sydney University and Internship at Royal North Shore Hospital, undertook a Masters degree in Engineering at Sydney University in order to start solving Medical Device design problems. Dr Roger went on to acquire a history of medical device innovation including co-designing and developing both the RCI screw, now sold through Smith and Nephew and the highly successful Active Knee prosthesis. He subsequently innovated a novel surface polishing and cleaning technique, which has significantly improved the expected life of joint replacement world wide. The company he founded to produce Medical Devices, ASDM has also helped the designs and inventions of Australian surgeons and inventors to achieve commercialisation. He has received numerous awards including the Clunies Ross Award, the Warren Centre Hero of Innovation Award, the Engineers Australia Sydney Division Entrepreneur of the Year and Sydney University Faculty of Engineering's Alumnus of the Year.

Other current directorships: None

Former directorships (in the last 3 years): None

Special responsibilities: Member of the Nomination and Remuneration Committee

Interests in shares: 7,554,690 ordinary shares

Interests in options: 254,000 options over ordinary shares

Name: **Walter Kmet**

Title: Non-Executive Director

Qualifications: BComm., GDhthSrvMt, MBT, FAIM

Experience and expertise:
Walter Kmet has over 20 years experience in the health industry in Australia, Asia and the United Kingdom. Walter was formerly Managing Director of HSA Group Limited, CEO of Nations Healthcare Limited, and held leadership positions with MIA Group Limited and Mayne Nickless Limited. Mr Kmet has worked closely with both public and private sector health systems and major international institutions, including Johns Hopkins Hospital and the National Health Service, in developing best practice in health care. He was responsible for Certification of the Jakarta based Jatinegara Hospital and Medical Center with ISO 9002 in 1997, the first time such Certification was granted to a Hospital in the Republic of Indonesia. Walter works substantively with Little Company of Mary Health Care, and has been appointed Adjunct Associate Professor with the School of Medicine at the University of Queensland.

Other current directorships: None

Former directorships (in the last 3 years): None

Special responsibilities: Chairman of the Audit and Risk Committee

Interests in shares: 98,278 ordinary shares

Interests in options: 100,000 options over ordinary shares

Name: **John O'Meara** (appointed on 1 March 2010)

Title: Non-Executive Director

Qualifications: PCM

Experience and expertise:
John O'Meara is an energetic business leader with over 25 years senior management experience in telecommunications and information technology industries in Australia, Asia Pacific and the United Kingdom. He is a seasoned strategy and project manager with expertise in strategic planning and the execution of large scale, complex and deadline dependent projects. He has held a series of senior leadership roles in Optus Pty Limited and was the Program Director responsible for GST compliance when first introduced in Australia. He was the Chief Operating Officer of XYZed Pty Limited, a start-up company created to establish, operate and wholesale national DSL services for corporate Australia. John was the champion of sustainable quality-of-service working practices when he was with British Telecom in Asia Pacific and he was responsible for gaining ISO9001 Total Quality Management accreditation. He also held senior management roles in Australia with AAPT Limited and Dalgety Farmers Limited. In the United Kingdom he held technical management roles with National Westminster Bank and the British Broadcasting Corporation (BBC).

Other current directorships: None

Former directorships (in the last 3 years): None

Special responsibilities: Member of the Nomination and Remuneration Committee and the Audit and Risk Committee

Interests in shares: 300,000 ordinary shares

Interests in options: None

DIRECTORS' REPORT 30 June 2010 Continued

Name: **Michael Spooner** (appointed on 13 September 2010)

Title: Non-Executive Director

Qualifications: BCom, ACA, MAICD

Experience and expertise:

Michael Spooner is a well-known and respected business leader. He has an extensive network of relationships with investment firms and business communities across the globe, having spent the majority of the past 25 years living and working internationally. He is a non-executive board member of Mesoblast Ltd and Chairman of BiVACOR, a total artificial heart company. He is also a non-executive director of Hawaii Biotech Inc., a specialty developer of vaccines. Most recently, Mr Spooner was a non-executive director of Peplin Inc., a dermatology focused skin cancer company from 2004 until the company was sold in 2009 for over $300m. He was Executive Chairman of Hunter Immunology Limited, a respiratory medicine company from 2007 to 2008. Previously, Mr Spooner was the Chairman of Mesoblast Limited from its initial listing in 2004 until 2007 and Managing Director and CEO of Ventracor Limited until 2003. Before his return to Australia, he was a Principal Partner and Director of Consulting Services with PricewaterhouseCoopers (Coopers & Lybrand) Hong Kong for several years.

Other current directorships: Non-Executive Director of Mesoblast Limited

Former directorships (in the last 3 years): Peplin Inc. Resigned in November 2009

Special responsibilities: None

Interests in shares: None

Interests in options: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

COMPANY SECRETARY

Richard Ulrick (BA, LLB, Dip Fin Mgt, FCIS, CPA) was appointed Company Secretary of the company on 12 September 2007 and is engaged by way of a services agreement between the company and Company Secretarial & Legal Services Pty Ltd which he established. Richard is a Solicitor of the Supreme Court of NSW and has more than 25 years' experience in company secretarial and general counsel roles.

MEETINGS OF DIRECTORS

The numbers of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	**Held**	**Attended**	**Held**	**Attended**	**Held**
Peter Kazacos	10	10	3	3	3	3
Walter Kmet	10	10	-	-	3	3
Gregory David Roger	10	10	3	3	-	-
John O'Meara	3	4	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee

REMUNERATION REPORT (AUDITED)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

A Principles used to determine the nature and amount of remuneration

As a medical device sales, manufacturing and design company competing against global multi-nationals, ASDM requires a board and senior management team that have both the technical capability and relevant experience to execute the company's business plan.

The company's executive remuneration framework was developed initially as part of the process of the company becoming a listed company on the ASX in December 2007 and is being more fully developed as the company grows. The objective is to ensure reward for performance is competitive and appropriate for the results delivered.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The directors consider options a key tool in attracting the required talented individuals to the Board and management team at this stage in ASDM's development while staying within the fiscal constraints of a growing company.

The remuneration structures take into account:

- Key criteria for good reward governance practices, namely: competitiveness and reasonableness, alignment to shareholders' interests, alignment of executive remuneration with performance, transparency and capital management;
- The capability and experience of the key management personnel;
- The ability of key management personnel to control performance; and
- The company's earnings and share price performance.

The remuneration structures have been being designed to motivate employees for quality short and long term performance. The mix between short term and long term variable components is to maintain a focus on the sustainable short term performance of the company, whilst ensuring ASDM is positioned for its longer term success.

Executive directors remuneration

Dr Greg Roger is an executive Director and full time employee of the company. No director's fees are paid to Dr Roger in addition to his annual remuneration as Chief Executive Officer. Details of remuneration payable under the Executive Service Agreement for Dr Roger are set out in Section C below.

The Directors may also be paid all travelling and other expenses properly incurred by them in attending meetings of the directors or any committee of directors or general meetings of the company or otherwise in connection with the execution of their duties as Directors.

Non-executive directors' remuneration

The aggregate remuneration that may be paid to non-executive directors is a maximum of $250,000 per annum. This remuneration may be divided among the non-executive Directors in such a manner as the Board may determine. The maximum may not be increased without prior approval from shareholders at a general meeting, Directors will seek approval from time to time as deemed appropriate.

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the directors. Payments to non-executive Directors are reviewed annually by the Board. The current base remuneration was last reviewed with effect from 1 July 2008. The Board has regard to information from external remuneration consultants to ensure non-executive directors' fees and payments are appropriate within the fiscal constraints of a growing company and in line with the market. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

As non-executive Directors assess individual and company performance, their remuneration does not have a variable performance related component.

DIRECTORS' REPORT 30 June 2010 Continued

Non-executive Directors generally do not receive share options. However an allocation was made as part of the process to listing on the ASX of the company's shares.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis including employer contributions to superannuation funds). This base remuneration is structured to be reasonable and fair relative to the scale of the company's business. It assumes the fulfilment of core performance requirements and expectations.

Remuneration levels are reviewed annually by the Nomination and Remuneration Committee through a process that considers individual and overall performance of the company. In addition regard is had to information from external remuneration consultants to ensure senior executives' remuneration is competitive in the market place having regard to the size of ASDM and the fiscal constraints of a growing company. Remuneration levels for the financial year ended 30 June 2010 were set having regard to the global financial crisis and its aftermath.

Performance linked remuneration

Performance linked remuneration is designed to reward key management personnel for meeting or exceeding their financial and personal objectives.

Short-term incentive (STI)

At this stage in ASDM's development, shareholder wealth is enhanced by the achievement of objectives in the development of the company's products, within a framework of prudent financial management and consistent with the company's annual business plan.

If ASDM exceeds a pre-determined EBITDA target set by the Nomination and Remuneration Committee, a short-term incentive (STI) pool also set by the Committee is available to senior executives during the annual review. This target ensures variable reward is only available when value has been created for shareholders and when earnings are consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out-performance.

50% of each executive's STI is allocated to overall company objectives, with 50% allocated to personal objectives aligned to the overall objectives of the company. The overall company objectives are considered on a financial year basis and are based on the company's annual business plan. These objectives are set by the Board. They are generally a mix of commercial and project milestones critical to the development of ASDM. Each objective has a specific allocation within the overall objectives, so that there is transparency in determining the level of achievement of the STI.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the company's performance. The maximum target bonus opportunity, currently approximately 25% of total remuneration, is expected to increase over time.

The objectives require performance in managing operating costs and achieving specific targets in relation to EBITDA and shareholder value added, as well as key, strategic non-financial measures linked to drivers of performance in future reporting periods.

The Nomination and Remuneration Committee determines whether objectives have been met. The STI bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Committee.

Long-term incentives

The long-term incentive has been intended to be provided to key management personnel other than non-executive Directors as options over ordinary shares of the company under the rules of the Employee Share Option Plan.

The ability to exercise the options will generally be conditional on the individual achieving certain performance hurdles, such as service conditions and the achievement of key performance indicators. However, options may be granted on whatever terms are required and appropriate to secure the services of key management personnel. The Nomination and Remuneration Committee is required to approve the number of options that ultimately vest. The performance benchmarks are intended to measure relative performance and provide rewards for materially improved company performance. The options will be structured with a view to minimising any 'short-termism' approach on the part of executives.

Consistent with this approach, shareholder approval was obtained for the grant of 250,000 options on 3 December 2009 to Dr. Roger to subscribe for a maximum of 250,000 shares in the company at an exercise price of $0.60 per share. None of these options vest as the company for the year ended 30 June 2010 did not achieve the minimum required EBITDA hurdle which was a prerequisite to their exercise. Had the options vested they would have had a value of $29,000 at 30 June 2010. The company's Securities Dealing Policy prohibits transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

No other options were granted to key management personnel because the company determined to consider first the impact of legislative changes to the taxation treatment of executive options that may adversely impact upon the grant of options as an appropriate means of providing long-term incentives when viewed from both the company's and executives' perspective.

Consequences of performance on shareholders' wealth

The Board considers that the above performance-linked remuneration structures will generate the desired outcome based on the experience of other companies.

In considering the company's performance and benefits for shareholders' wealth, the Nomination and Remuneration Committee has regard to the company's earnings and any dividends paid in respect of the current financial year and the previous three financial years together with share price performance since listing on the ASX in December 2007.

	Year ended 30 June 2010	**Year ended 30 June 2009**	**Year ended 30 June 2008**
Revenue ($'000)	7,470	6,409	7,095
EBITDA ($'000)	1,236	(700)	912
Dividends paid ($'000)	Nil	Nil	Nil
Share price at year end ($)	0.43	0.30	0.37

Notwithstanding the advances made by the company during the year, the required EBITDA for the year ended 30 June 2010 was not achieved so that bonus payments for key management personnel have not been paid.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Advanced Surgical Design & Manufacture Limited are set out in the following tables.

The key management personnel of the consolidated entity consisted of the directors of Advanced Surgical Design & Manufacture Limited and the following executives:

- Richard Ulrick - Company Secretary
- Tom Milicevic - Chief Financial Officer
- Jari Hyvarinen - Chief Operating Officer

DIRECTORS' REPORT 30 June 2010 Continued

2010	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary & fees $	Bonus $	Non-monetary $	Super -annuation $	Long service leave $	Equity settled $	Total $
Non-Executive Directors:							
Peter Kazacos	62,520	-	-	-	-	-	62,520
Walter Kmet	40,000	-	-	-	-	-	40,000
John O'Meara	6,667	-	-	-	-	-	6,667
Executive Directors:							
Gregory James Roger	167,263	-	14,240	15,538	4,078	-	201,119
Other Key Management Personnel:							
Richard Ulrick	46,200	-	-	-	-	-	46,200
Tom Milicevic	179,882	-	-	16,200	1,035	24,724	221,841
Jari Hyvarinen	164,264	-	-	14,019	4,732	-	183,015

2009	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary & fees $	Bonus $	Non-monetary $	Super -annuation $	Long service leave $	Equity settled $	Total $
Non-Executive Directors:							
Peter Kazacos	62,520	-	-	-	-	-	62,520
Walter Kmet	40,000	-	-	-	-	-	40,000
Executive Directors:							
Gregory James Roger	198,990	-	28,948	17,797	4,730	45,999	296,464
Other Key Management Personnel:							
Richard Ulrick	80,100	-	-	-	-	-	80,100
Tom Milicevic	174,352	-	-	15,527	410	24,724	215,013
Jari Hyvarinen	139,333	10,000	-	12,372	6,150	18,373	186,228

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Non-Executive Directors:						
Peter Kazacos	100%	100%	- %	- %	- %	- %
Walter Kmet	100%	100%	- %	- %	- %	- %
John O'Meara	100%	- %	- %	- %	- %	- %
Executive Directors:						
Gregory James Roger	100%	85%	- %	- %	- %	15%
Other Key Management Personnel:						
Richard Ulrick	100%	100%	- %	- %	- %	- %
Tom Milicevic	89%	89%	- %	- %	11%	11%
Jari Hyvarinen	100%	85%	- %	5%	- %	10%

The proportion of the cash bonus paid and forfeited is as follows:

	Cash bonus paid		Cash bonus forfeited	
Name	**2010**	**2009**	**2010**	**2009**
Executive Directors:				
Gregory James Roger	- %	- %	100%	100%
Other Key Management Personnel:				
Tom Milicevic	- %	- %	100%	100%
Jari Hyvarinen	- %	25%	100%	75%

C Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director.

Remuneration and other terms of employment for the Chief Executive Officer and Chief Financial Officer and the other key management personnel are also formalised in service agreements. Each of these agreements provides for the provision of performance-related cash bonuses. Other major provisions of the agreements are set out below:

Name: **Dr Gregory James Roger**

Title: Chief Executive Officer

Details: Dr Roger's current term of employment commenced on 9 May 2006 and ends on the later of 30 June 2012 and the expiration of three months' notice by either party. His remuneration is reviewed annually. Dr Roger is entitled to receive, subject to shareholder approval, yearly grants of options related to achievement of budgeted EBITDA or any other performance criteria to be set by the Board and notified to him annually. The company may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Dr Roger's services early. Dr Roger has undertaken not to engage in competitive conduct with ASDM for the term of the agreement and for a further period of up to 12 months thereafter.

Name: **Tom Milicevic**

Title: Chief Financial Officer

Details Tom Milicevic's employment commenced on 15 October 2007 and may be terminated by either party on giving 3 months' notice. His remuneration is reviewed annually. The company may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Mr Milicevic's services early. Mr Milicevic has undertaken not to engage in competitive conduct with ASDM for the term of the agreement and for a further period of up to 12 months thereafter.

Name: **Jari Hyvarinen**

Title: Chief Operating Officer

Details: Jari Hyvarinen's employment as Chief Operating Officer commenced on 1 July 2008 and may be terminated by either party on giving 1 month notice. His remuneration is reviewed annually. The company may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Mr Hyvarinen's services early.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

D Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2010.

Options

The terms and conditions of each grant of options affecting remuneration in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
1 July 2007	30 June 2009	30 June 2012	$0.50	$0.36
1 July 2007	1 July 2007	5 December 2012	$0.50	$0.37
16 November 2007	16 November 2010	16 November 2013	$0.60	$0.37
30 November 2007	30 June 2009	30 June 2011	$0.60	$0.29
3 December 2009	1 July 2010	7 September 2012	$0.60	$0.17
26 March 2010	1 July 2011	30 June 2013	$0.60	$0.25

Options granted carry no dividend or voting rights.

Details of options over ordinary shares issued to directors and other key management personnel during the year ended 30 June 2010 are set out below:

	Number of options granted during the year		Number of options vested during the year	
Name	2010	2009	2010	2009
Gregory James Roger	250,000	250,000	-	254,000

This concludes the remuneration report, which has been audited.

SHARES UNDER OPTION

Unissued ordinary shares of Advanced Surgical Design & Manufacture Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
1 July 2007	30 June 2012	$0.50	254,000
1 July 2007	5 December 2012	$0.50	206,000
15 November 2007	16 November 2013	$0.60	200,000
30 November 2007	30 June 2011	$0.60	636,000
26 March 2010	30 June 2013	$0.60	28,000

SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no shares of Advanced Surgical Design & Manufacture Limited issued on the exercise of options during the year ended 30 June 2010.

INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors of the company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium of $22,845 in respect of a contract to insure the directors and company secretary of the company against a liability to the extent permitted by the Corporations Act 2001.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person 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 purpose of taking responsibility on behalf of the company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the financial year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence for the following reasons:

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

DIRECTORS' REPORT 30 June 2010 Continued

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF PRICEWATERHOUSECOOPERS

There are no officers of the company who are former audit partners of PricewaterhouseCoopers.

AUDITOR'S INDEPENDENCE DECLARATION

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

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 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors.

On behalf of the directors

Peter Kazacos
Director

27 September 2010
Sydney

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Advanced Surgical Design and Manufacture Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Advanced Surgical Design and Manufacture Limited and the entities it controlled during the period.

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
27 September 2010

Liability limited by a scheme approved under Professional Standards Legislation

CORPORATE GOVERNANACE STATEMENT 30 June 2010

Advanced Surgical Design & Manufacture Limited is committed to good corporate governance practices. These practices which are reflected in the company's policies are designed to protect and enhance shareholder interests and to ensure that there are appropriate levels of disclosure and accountability.

The company has endorsed the updated Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council ("ASX Principles") and seeks to follow them to the extent that it is practicable having regard to the size and nature of its operations. All of the Recommendations that applied for the 2009-10 financial year have been followed with one exception. That part of Recommendation 4.2 requiring an audit committee to have at least three members and consist only of non-executive directors had not been followed until a third non-executive director, Mr John O'Meara, was appointed on 1 March 2010 to the Board and Board committees.

The company's policies are regularly reviewed to ensure that they remain current and in accordance with good practice appropriate for the company's business environment. These policies are available on the Corporate Governance section of the company's website.

Set out below are the fundamental corporate governance practices of the company.

THE BOARD OF DIRECTORS (THE "BOARD")

Board composition

The company's constitution provides that the number of Directors is to be determined by the Board but must be no less than three and no more than ten, with a broad range of expertise.

The company currently has five Directors: four non-executive Directors, Mr Peter Kazacos, the Chairman of the Board, and Messrs Walter Kmet, John O'Meara and Michael Spooner in addition to one executive Director, Dr Greg Roger, the Managing Director and Chief Executive Officer. The experience and tenure of the Directors are set out in the Directors' report on pages 9, 10 and 11. Messrs Kazacos, Kmet, O'Meara and Spooner are considered independent by the Board. Consequently a majority of the Board are independent directors and the Chief Executive Officer and the Chairman are different people as required by good practice.

In view of the expected growth of the company the Board maintains an ongoing process to ensure its composition is appropriate. Consequently, during the year Mr O'Meara was appointed as a Director and Mr Spooner has been appointed since year end. This has enabled the company to increase the membership of its Committees to three to accord with that outlined in the ASX Principles. Board members are committed to spending sufficient time to enable them to carry out their duties as Directors of the company; any candidate will confirm that they have the necessary time to devote to their Board position prior to appointment.

Responsibilities

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the company. The company's Corporate Governance Policy, which is available in the Corporate Governance section of the company's website, sets out the Board's charter including the specific responsibilities of the Board. Corporate expectations are set out in the Directors' letters of appointment.

The Board's roles and responsibilities include formulating the company's strategic direction, approving and monitoring capital expenditure, setting remuneration policies, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management of information systems. The Board is also responsible for approving and monitoring financial, risk and other reporting.

The Board has delegated responsibility for the day to day operation and administration of the company to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Directors' independence

An independent Director of the company is a Director who is not a member of management (a non-executive Director) and who:

- holds less than five per cent of the voting shares of the company and is not an officer of, or otherwise associated, directly, with a shareholder of more than five per cent of the voting shares of the company;
- has not within the last three years been employed in an executive capacity by the company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member;
- is not a material supplier or customer of the company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a Director of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the company.

The Board considers "material" in this context to be where any Director-related business relationship has represented, or is likely in future to represent the lesser of at least 5% of the company's or the Director-related business' revenue. The Board considered the nature of the relevant industry competition, and the size and nature of each Director-related business relationship, in arriving at this threshold.

Director induction and education

The company has, due to the Board's size, an informal induction process. New Directors are fully briefed about the nature of the business, current issues, the corporate strategy and the expectations of the company concerning performance of Directors. Directors receive a formal letter of appointment setting out the key terms and conditions relevant to that appointment. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Conflict of interests

Directors must disclose to the Board any actual or potential conflicts of interest which may exist as soon as they become aware of the issue and comply with the Corporations Act 2001 provisions on disclosing interests and restrictions on voting, which generally will involve the conflicted Director being absent from the meeting whilst the Board discusses the matter and not voting on the matter.

Details of Director-related entity transactions with the company are set out in note 30 to the financial statements.

Independent professional advice and access to company information

Each Director has the right of access to all relevant company information, to the company's executives and to the company's external auditors without management present to seek any clarification or additional information. In addition and subject to prior consultation with the Chairman, each Director may seek independent professional advice from a suitably qualified adviser at the company's expense. A copy of the advice received by the Director is made available to all other members of the Board.

Corporate reporting

The Managing Director and the Chief Financial Officer give an annual written declaration to the Board that in their opinion the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001, the company's financial statements and the notes to those statements for the financial year comply with accounting standards and present a true and fair view of the company's financial condition and operational results. They have confirmed in writing to the Board that this declaration in relation to the 2009-10 financial year is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

CORPORATE GOVERNANACE STATEMENT 30 June 2010 Continued

Board committees
To assist in the execution of its responsibilities, the Board has established two Board committees, namely, a Nomination & Remuneration Committee and an Audit & Risk Committee.

Each Committee has its own charter setting out matters relevant to its composition and responsibilities. The charters are reviewed periodically by the Board and are available in the Corporate Governance section of the company's website.

The Board currently holds approximately ten scheduled meetings each year, in addition to strategy and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise. Details of the number of meetings held by the Board, together with the number of meetings attended by each Director are contained on page 11.

The agenda for Board meetings is prepared in conjunction with the Chairman and Company Secretary. Standing items include the Managing Director's report which may include strategic matters and operational summary, financial report, and company secretarial report which includes governance and compliance. Monthly actual results are reported against budgets approved by the Board. Board papers are circulated in advance and minutes kept of all meetings.

NOMINATION & REMUNERATION COMMITTEE

Composition
The Nomination & Remuneration Committee now comprises the independent Chairman (Peter Kazacos), an independent non-executive Director, John O'Meara, and Chief Executive Officer (Greg Roger). Each member has the expertise to enable the Committee to effectively discharge its mandate. Details of each Director's experience and background are outlined on pages 9, 10 and 11 of the Directors' Report.

Meetings and reporting
The Nomination & Remuneration Committee meets a minimum three times per annum. Details of attendance at Committee Meetings are set out on page 11 in the table of Directors' meetings. All Committee minutes are tabled at Board meetings for review.

Responsibilities
The responsibilities of the Nomination & Remuneration Committee include reviewing Board succession plans, evaluating Board performance and making recommendations to the Board on executive remuneration packages, policies and incentives and remuneration framework for directors.

The Nomination & Remuneration Committee's charter is posted on the company's website under "Corporate Governance".

Performance assessment
The Nomination & Remuneration Committee has in place an annual self assessment questionnaire to facilitate evaluation of the performance of the Board, its Committees and Directors. The performance criteria used takes into account each Director's contribution to setting the direction, strategy and financial objectives of the company. The Committee makes a recommendation on its findings to the Board. The Committee's nomination of existing Directors for reappointment is not automatic and is contingent on their achievement, performance and contribution to the company and on the current and future needs of the Board and the company.

New Directors
The Committee is responsible for identifying and recommending individuals qualified to become Directors having regard to the competencies identified which generally will include character, judgement and relevant experience.

The terms and conditions of the appointment and retirement of non-executive Directors are set out in a letter of appointment, including expectations for attendance and preparation for all Board meetings, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

Executive performance assessment
The Nomination and Remuneration Committee conducts an annual performance appraisal of the Managing Director and the senior executives reporting directly to him. The results are discussed at a Board meeting with the outcome determining the payment of bonuses and vesting of relevant options granted under the Employee Share Option Plan. The performance appraisal includes assessment of the respective executive's performance against key performance objectives set out at the beginning of each financial year.

Remuneration

Details of the remuneration of executives and Directors and the company's remuneration objectives and policies are set out in the Remuneration Report on pages 12 to 17.

Audit & Risk Committee

The role of the Audit & Risk Committee is set out in a formal charter approved by the Board. This charter is available on the company website under "Corporate Governance".

Composition, Meetings and Reporting

The Audit & Risk Committee now comprises Messrs Walter Kmet, Peter Kazacos and John O'Meara who are all non-executive independent Directors. The Committee Chairman is Walter Kmet who is not the Chairman of the Board. Each member has the expertise to enable the Committee to effectively discharge its mandate. Details of each Director's experience and background are outlined on pages 9, 10 and 11 of the Directors' Report.

The Audit & Risk Committee meets a minimum of three times per annum to consider the company's annual budget and strategic plan review, half-year financial results, full-year financial results and risk management process.

The company's external auditor (PricewaterhouseCoopers) is invited to attend at least two Audit & Risk Committee meetings per annum. The Chairman of the Audit & Risk Committee meets (at least annually) with the external auditor in the absence of management. The Managing Director and Chief Financial Officer are invited to Audit & Risk Committee meetings at the discretion of the Committee.

All Committee minutes are tabled at Board meetings for review.

Responsibilities

The primary function of the Audit & Risk Committee is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to:

- fulfilling the company's accounting and financial reporting obligations;
- maintaining an effective and efficient audit;
- the effectiveness of the internal control environment;
- prudent management of financial and other risks;
- reviewing the effectiveness and efficiency of operations

EXTERNAL AUDITORS

The Audit & Risk Committee reviews the performance of the external auditor on an annual basis ensuring that the external auditor meets the required standards for auditor independence. The Committee meets with the auditor during the year to review the results and findings of the auditor in respect of financial reports, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

The external auditor attends the company's Annual General Meeting and is available at that Meeting to answer shareholder questions regarding the conduct of the company's audit and the preparation and content of the auditor's report.

Selection and Rotation of Audit Partner

The appointment of auditor is put out to public tender no less frequently than every 5 years. A minimum of three tenders will normally be considered by the Board. The terms of the tender cover audit in isolation and must not be co-mingled with other products and services that might be offered by the candidate.

The incumbent auditor is not restricted from tendering but should it do so and if the appointment is renewed the engagement partner cannot be the same engagement partner that was used in the final 2 years of the ending appointment. The application of this and similar requirements are not intended to bestow an advantage on larger audit practices but rather to help ensure maintenance of the integrity of the audit function. The maximum continuous period of time one audit group can act as auditor is 10 years.

CORPORATE GOVERNANACE STATEMENT 30 June 2010 Continued

RISK ASSESSMENT AND MANAGEMENT

The company manages material business risks under a risk management policy which is available on its website under "Corporate Governance". There is an ongoing program to identify, monitor and manage compliance issues and material business risks with a view to enhancing the value of every shareholder's investment and safeguarding the company's investments. The Board reviews the identification, management and reporting of risk as part of the annual budget process. More frequent reviews are undertaken as conditions or events dictate.

The Audit & Risk Committee has the responsibility for ensuring the effectiveness of risk management and internal compliance and control. As part of the review process the Committee considers the extent to which the risk process has been successful in retrospect with regard to the identification and mitigation of risks. This is required at all times and the Board actively promotes a culture of quality and integrity.

The company has developed a set of policies and procedures (set out in the company's procedures manual) in relation to the company's compliance and risk programs. The company doesn't have an internal audit function due to its size; however the procedures and policies are controlled documents and subject to annual review.

The Board recognises that no cost-effective internal control system will preclude the possibility of errors and irregularities. The company has insurance, including product liability and professional indemnity insurance, to cover unexpected or unforeseen events and reduce any adverse consequences.

CODE OF CONDUCT

The Board has adopted a Code of Conduct which sets out the company's obligations and standard of conduct for directors and employees when dealing with each other, competitors, customers and the community. The Code outlines not only practices necessary to maintain confidence in the Company's integrity and to take into account its legal obligations and the expectations of its stakeholders but also the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The Code of Conduct is posted on the company's website under "Corporate Governance".

TRADING IN GENERAL COMPANY SECURITIES BY DIRECTORS AND EMPLOYEES

The company has implemented a Securities Dealing Policy ("Policy") to prevent "insider trading" in the company's securities by Directors, senior management and any other employees or individuals who for the purposes of the Policy are deemed to be Relevant Employees as well as persons associated with them.

A person undertakes insider training if that person trades in the company's securities while possessing information about the company that is not generally available and is price sensitive. The Policy restricts the times when Directors, senior management and all other employees covered by the Policy may trade in the company's securities in addition to the above referenced general legal prohibition. The policy also prohibits transactions in associated products which limit risk of participating in unvested entitlements under any equity based remuneration schemes.

All trading in the company's securities requires clearance from the company.

A copy of the Policy is available on the company website under "Corporate Governance".

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The company is committed to promoting effective communications with shareholders by ensuring they and the investment market generally are provided with full and timely disclosure of its activities. The company provides shareholders with periodic updates on its business. Shareholders are encouraged to communicate by electronic means and to participate at the Annual General Meeting, to ensure a high level of accountability and identification with the company's strategy and goals. The company's Shareholder Communication Policy is available on its website under "Corporate Governance".

Information is advised to shareholders in accordance with the company's Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, displaying them on the company's website, and issuing media releases. The Company Secretary is responsible for ensuring compliance with the policy which accords with the disclosure requirements under the ASX Listing Rules.

The company's Continuous Disclosure Policy is also available in the Corporate Governance section of the company's website.

FINANCIAL REPORT For the year ended 30 June 2010

CONTENTS

GENERAL INFORMATION

The financial report covers Advanced Surgical Design & Manufacture Limited as a consolidated entity consisting of Advanced Surgical Design & Manufacture Limited and the entities it controlled. The financial report is presented in Australian Dollars, which is Advanced Surgical Design & Manufacture Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Advanced Surgical Design & Manufacture Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 2/12 Frederick Street
St Leonards NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 27 September 2010. The directors have the power to amend and reissue the financial report.

STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2010

	Note	Consolidated 2010	2009
		$'000	$'000
Revenue	4	7,470	6,409
Other income	5	33	3
Expenses	6		
Cost of sales and purchases of consumables		(3,385)	(3,259)
Corporate and administration expenses		(2,094)	(2,502)
Quality and research and development expenses		(1,369)	(1,063)
Sales and marketing expense		(1,160)	(1,126)
Finance costs	6	(132)	(100)
Loss before income tax (expense)/benefit		(637)	(1,638)
Income tax (expense)/benefit	7	(259)	613
Loss after income tax (expense)/benefit for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited	23	(896)	(1,025)
Other comprehensive income			
Foreign currency translation		(33)	-
Other comprehensive income for the year, net of tax		(33)	-
Total comprehensive income for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited		(929)	(1,025)
		Cents	**Cents**
Basic earnings per share	38	(2.54)	(2.90)
Diluted earnings per share	38	(2.54)	(2.90)

The above statement of comprehensive income should be read in conjunction with the accompanying notes

STATEMENT OF FINANCIAL POSITION As at 30 June 2010

	Note	Consolidated 2010	2009
		$'000	$'000
Assets			
Current assets			
Cash and cash equivalents	8	723	852
Trade and other receivables	9	1,005	1,145
Inventories	10	2,834	2,817
Total current assets		4,562	4,814
Non-current assets			
Receivables	11	205	200
Property, plant and equipment	12	4,162	4,449
Intangibles	13	886	230
Deferred tax	14	798	1,140
Total non-current assets		6,051	6,019
Total assets		10,613	10,833
Liabilities			
Current liabilities			
Trade and other payables	15	1,013	878
Borrowings	16	906	269
Provisions	17	113	78
Total current liabilities		2,032	1,225
Non-current liabilities			
Borrowings	18	755	787
Deferred tax	19	-	18
Provisions	20	341	349
Total non-current liabilities		1,096	1,154
Total liabilities		3,128	2,379
Net assets		7,485	8,454
Equity			
Contributed equity	21	8,915	8,980
Reserves	22	481	489
Accumulated losses	23	(1,911)	(1,015)
Total equity		7,485	8,454

The above statement of financial position should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2010

	Contributed equity	Reserves	Accumulated losses	Total equity
	$'000	$'000	$'000	$'000
Consolidated				
Balance at 1 July 2008	9,040	313	10	9,363
Total comprehensive income for the year	-	-	(1,025)	(1,025)
Transactions with owners in their capacity as owners:				
Tax effect on transaction costs arising on share issue	(60)	-	-	(60)
Share-based payments	-	176		176
Balance at 30 June 2009	8,980	489	(1,015)	8,454

	Contributed equity	Reserves	Accumulated losses	Total equity
	$'000	$'000	$'000	$'000
Consolidated				
Balance at 1 July 2009	8,980	489	(1,015)	8,454
Total comprehensive income for the year	-	(33)	(896)	(929)
Transactions with owners in their capacity as owners:				
Tax effect on transaction costs arising on share issue	(65)	-	-	(65)
Share-based payments	-	25	-	25
Balance at 30 June 2010	8,915	481	(1,911)	7,485

The above statement of changes in equity should be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS For the year ended 30 June 2010

	Note	Consolidated 2010	2009
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		8,329	7,784
Payments to suppliers (inclusive of GST)		(7,446)	(7,627)
		883	157
Interest received		18	69
Interest and other finance costs paid		(132)	(100)
Net cash from operating activities	36	769	126
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	32	15	-
Payments for property, plant and equipment		(850)	(1,015)
Payments for intangible assets		(114)	(98)
Proceeds from sale of property, plant and equipment		4	23
Net cash used in investing activities		(945)	(1,090)
Cash flows from financing activities			
Proceeds from borrowings		204	458
Repayment of borrowings		(120)	-
Finance lease repayments		(37)	(166)
Net cash from financing activities		47	292
Net decrease in cash and cash equivalents		(129)	(672)
Cash and cash equivalents at the beginning of the financial year		852	1,524
Cash and cash equivalents at the end of the financial year	8	723	852

The above statement of cash flows should be read in conjunction with the accompanying notes

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

New, revised or amending Standards and Interpretations

The consolidated entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Standards and Interpretations are most relevant to the consolidated entity:

AASB 101 Presentation of Financial Statements ('AASB 101')

The consolidated entity has applied the revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the consolidated entity now presents all owner changes in the statement of changes in equity. The balance sheet is now referred to as the statement of financial position. There is a requirement to present a third statement of financial position if there is restatement of comparatives through either a correction of error, change in accounting policy or a reclassification. The cash flow statement is now referred to as the statement of cash flows.

AASB 3 Business Combinations ('AASB 3')

The consolidated entity has applied the revised AASB 3 for all new business combinations acquired on or after 1 July 2009. As well as the expensing of transaction costs and minority interest now being referred to as non-controlling interest, there are a number of significant changes - refer to the 'business combinations' accounting policy for further details.

AASB 127 Consolidated and Separate Financial Statements ('AASB 127')

The consolidated entity has applied the revised AASB 127 from 1 July 2009. The revised standard requires changes in ownership interest of a subsidiary without a change in control to be accounted for as a transaction with owners in their capacity as owners. It also changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary - refer to the 'principles of consolidation' accounting policy for further details.

AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

This amendment is applicable from 1 July 2009 and removes references to the cost method. The distinction between pre and post acquisition profits is no longer relevant as all dividends are now recognised in profit or loss - refer to the 'principles of consolidation' accounting policy for further details.

AASB 7 Financial Instruments: Disclosure ('AASB 7')

This amended standard is applicable from 1 July 2009 and requires additional disclosure about fair value measurement of financial instruments, using a three level fair value hierarchy. The amendments also clarify the disclosure requirements about liquidity risks for derivative transactions and assets used for liquidly management.

AASB 8 Operating Segments ('AASB 8')

The consolidated entity has applied AASB 8, which replaces AASB 114 'Segment Reporting', from 1 July 2009. AASB 8 requires a management approach to segment reporting based on the information reported internally. Refer to note 3.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES Continued

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Going concern

At 30 June 2010 the consolidated entity had capital reserves of $7.9 million and cash and cash equivalents of $723,000. The consolidated entity had a considerable increase in operating cash flows, while it experienced negative overall cash flows during the financial year, due to the continued development of its PAD project and orthopaedic marketing strategy.

The directors are of the view that the consolidated entity will continue as a going concern and that ASDM will realise its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial statements.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

Principles of consolidation

The consolidated financial statements incorporates the assets and liabilities of all subsidiaries of Advanced Surgical Design & Manufacture Limited ('company' or 'parent entity') as at 30 June 2010 and the results of all subsidiaries for the year then ended. Advanced Surgical Design & Manufacture Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Change in accounting policy from 1 July 2009

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

The change in accounting policy has been applied prospectively.

Accounting policy up to 30 June 2009

The acquisition of subsidiaries is accounted for using the purchase method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for using the parent entity extension method, where the difference between the consideration paid and the book value of the share of net assets acquired is recognised in goodwill.

Where the consolidated entity loses control over a subsidiary, the consolidated entity recognises a gain or loss directly to the income statement, being the difference between the consideration received and the share of the net assets disposed of. Any investment retained is accounted for at its proportionate share of net asset value at the date control is lost.

Operating segments

Change in accounting policy from 1 July 2009

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Accounting policy up to 30 June 2009

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns 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 risks and returns that are different to those of segments operating in other economic environments.

Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian Dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian Dollars using the average exchange rates, which approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The consolidated entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the consolidated entity's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The consolidated entity bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

A sale is recorded when goods have been shipped to the customer, the customer has accepted the goods and collectibility of the related receivables is probable.

Lease income

Lease income from operating leases is recognised in income on an accrual basis.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior periods, where applicable.

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 that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories
Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES Continued

Investments and other financial assets

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable date indicating that there is a measurable decrease in estimated future cash flows. The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal can not exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on other assets is calculated using either the diminishing value or straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	2-20 years
Fixtures and fittings	2-13 years
Leasehold improvements	2-10 years
Instrument sets	5-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of an intangible asset is measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Website

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 10 and 20 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 10 and 20 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on finance leases

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES Continued

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits
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 current liabilities 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.

Long-term employee benefit obligations
The liability for long service leave and annual leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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.

Share-based payments
Share-based compensation benefits are provided to employees via the ASDM Employee Option Plan and an employee share scheme. Information relating to these schemes is set out in note 39.

The fair value of options granted under the ASDM 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 impact of dilution, 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.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Contributed equity
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Advanced Surgical Design & Manufacture Limited, 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 financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take 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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Standards and Interpretations not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The consolidated entity's assessment of the impact of these new standards and interpretations, most relevant to and not early adopted by the consolidated entity, are set out below.

AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

These amendments are applicable to annual reporting periods beginning on or after 1 January 2010. These amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main change is the removal of specific guidance on classifying land as a lease in AASB 117 'Leases', which may result in more land leases being classified as finance leases. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES Continued

AASB 2009-8 Amendments to AASB 2 - Group Cash-settled Share-based Payment Transactions
These amendments are applicable to annual reporting periods beginning on or after 1 January 2010. These amendments clarify the scope of AASB 2 'Share-Based Payment' by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the consolidated entity settles the transaction, and no matter whether the transaction is settled in shares or cash. These amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by these amendments. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

AASB 2009-10 Amendments to AASB 132 – Classification of Rights Issues
These amendments are applicable to annual reporting periods beginning on or after 1 February 2010. These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

AASB 2009-12 Amendments to Australian Accounting Standards - Related Party Disclosures
These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 9 Financial Instruments and 2009-11 Amendments Australian Accounting Standards arising from AASB 9
This standard and consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. This standard introduces new classification and measurement models for financial assets as part of phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). It uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. The standard also removes the impairment requirements for financial assets held at fair value. The accounting for financial liabilities has not been amended by the IASB and continues to be classified and measured in accordance with AASB 139. The consolidated entity will adopt this standard from 1 July 2011 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence

Estimation of useful lives of assets

The consolidated entity's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. Management will increase the depreciation and amortisation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets

The consolidated entity is required to reassess both recognised and unrecognised deferred tax assets at the end of each reporting period. Deferred tax assets relating to unused tax losses have only been recognised to the extent that it is probable that the consolidated entity will have sufficient future taxable profit against which the unused tax losses can be utilised. The consolidated entity has therefore reversed $321,000 of tax losses previously recognised as a deferred tax asset and recognised an amount of $399,000 which has been determined in reference to future short term forecasts. The impact of applying this critical judgement has been reflected in note 7.

NOTE 3. OPERATING SEGMENTS

Identification of reportable operating segments

The consolidated entity operates in one segment being the sale, manufacture and design of surgical implants.

NOTE 4. REVENUE

	Consolidated	
	2010	**2009**
	$'000	$'000
Sales revenue		
Sale of goods	6,027	6,188
Sale of intellectual property	1,280	-
	7,307	6,188
Other revenue		
Interest	18	69
Sub-lease rentals	145	152
	163	221
Revenue	7,470	6,409

NOTE 5. OTHER INCOME

	Consolidated	
	2010	**2009**
	$'000	$'000
Net gain on disposal of property, plant and equipment	-	3
Other income	33	-
Other income	33	3

NOTE 6. EXPENSES

	Consolidated 2010	2009
	$'000	$'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	539	471
Fixtures and fittings	186	76
Leasehold improvements	28	28
Lease make good	60	60
Instrument sets	268	138
Total depreciation	1,081	773
Amortisation		
Website	9	10
Patents and trademarks	34	20
Total amortisation	43	30
Total depreciation and amortisation	1,124	803
Impairment		
Patents and trademarks -	-	116
Finance costs		
Interest and finance charges paid/payable	132	100
Net foreign exchange loss		
Net foreign exchange loss	116	9
Net loss on disposal		
Net loss on disposal of property, plant and equipment	1	-
Rental expense relating to operating leases		
Minimum lease payments	688	669
Superannuation expense		
Defined contribution superannuation expense	232	220
Share-based payments expense		
Share-based payments expense	25	176
Employee benefits expense		
Employee benefits expense	2,489	2,594
Research and development expense		
Research and development expense	215	181
Write off of assets		
Inventories	107	105

NOTE 7. INCOME TAX EXPENSE/(BENEFIT)

	Consolidated 2010	Consolidated 2009
	$'000	$'000
Income tax expense/(benefit)		
Deferred tax	259	(613)
Aggregate income tax expense/(benefit)	259	(613)
Deferred tax included in income tax expense/(benefit) comprises:		
Decrease/(increase) in deferred tax assets (note 14)	277	(515)
Decrease in deferred tax liabilities (note 19)	(18)	(98)
	259	(613)
Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Loss before income tax (expense)/benefit	(637)	(1,638)
Tax at the Australian tax rate of 30%	(191)	(491)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	7	53
Concessional research and development expenditure treatment	(101)	(74)
Investment allowance	(28)	(43)
Sundry items	(27)	(58)
	(340)	(613)
Prior year tax losses previously recognised now not recognised	321	-
Current year tax losses not recognised	278	-
Income tax expense/(benefit)	259	(613)
Amounts charged directly to equity		
Deferred tax assets (note 14)	65	60
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	1,995	-
Potential tax benefit @ 30%	599	-

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

NOTE 8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2010	**2009**
	$'000	$'000
Cash at bank and on hand	723	852

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows.

Interest rate risk exposure

The consolidated entity's exposure to interest rate risk is discussed in note 25.

NOTE 9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010	**2009**
	$'000	$'000
Trade receivables	959	1,086
Other receivables	5	-
Prepayments	41	59
	1,005	1,145

Impairment of receivables

At 30 June 2010 the directors were not aware of any receivables that were impaired (2009: Nil).

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $304,000 at 30 June 2010 ($300,000 at 30 June 2009). Management did not consider a credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2010	**2009**
	$'000	$'000
1 to 2 months	281	235
3 to 4 months	23	65
	304	300

Other receivables

These amounts generally arise from transactions outside the usual operating activities of the consolidated entity.

Foreign exchange and interest rate risk

Information about the consolidated entity's exposure to exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 25.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

NOTE 10. CURRENT ASSETS – INVENTORIES

	Consolidated	
	2010	**2009**
	$'000	$'000
Raw materials - at cost	550	737
Work in progress - at cost	162	414
Finished goods - at lower of cost or net realisable value	2,122	1,666
	2,834	2,817

Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to $107,000 (2009: $105,000). The expense has been included in 'cost of sales' in profit or loss.

NOTE 11. NON-CURRENT ASSETS – RECEIVABLES

	Consolidated	
	2010	**2009**
	$'000	$'000
Other receivables	205	200

Impaired receivables or receivables past due

None of the non-current receivables are impaired or past due but not impaired.

Foreign exchange and interest rate risk

Information about the consolidated entity's exposure to exposure to foreign currency risk and interest rate risk in relation to other receivables is provided in note 25.

Fair value and credit risk

The effect of discounting is considered not to be material and their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

NOTE 12. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2010	Consolidated 2009
	$'000	$'000
Plant and equipment - at cost	6,625	6,588
Less: Accumulated depreciation	(4,758)	(4,220)
	1,867	2,368
Fixtures and fittings - at cost	1,419	1,103
Less: Accumulated depreciation	(694)	(508)
	725	595
Leasehold improvements - at cost	279	279
Less: Accumulated depreciation	(175)	(147)
	104	132
Lease make good - at cost	288	283
Less: Accumulated depreciation	(140)	(80)
	148	203
Instrument sets - at cost	2,092	1,657
Less: Accumulated depreciation	(774)	(506)
	1,318	1,151
	4,162	4,449

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment	Fixtures and fittings	Leasehold improvements	Lease make good	Instrument sets	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated						
Balance at 1 July 2008	2,711	513	159	231	613	4,227
Additions	128	168	1	32	686	1,015
Disposals	-	(10)	-	-	(10)	(20)
Depreciation expense	(471)	(76)	(28)	(60)	(138)	(773)
Balance at 30 June 2009	2,368	595	132	203	1,151	4,449
Additions	42	316	-	5	492	855
Additions through business combinations (note 32	1	-	-	-	-	1
Disposals	(5)	-	-	-	-	(5)
Transfers in/(out)	-	-	-	-	(57)	(57)
Depreciation expense	(539)	(186)	(28)	(60)	(268)	(1,081)
Balance at 30 June 2010	1,867	725	104	148	1,318	4,162

NOTE 12. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT Continued

Key assumptions used for value-in-use calculations

In performing value-in-use calculations, the consolidated entity has applied a post-tax discount rate of 12.0% (2009: 12.0%), which is the post-tax Weighted Average Cost of Capital (WACC). Revenues are projected to increase at a rate of 3.0% (2009: 4.8%) for the first five years based on management's expectations. Revenues beyond the 5 year period are extrapolated using an estimated growth rate of 3.0%.

Impairment charge

There was no impairment charge on property, plant and equipment during the year (2009: $nil).

NOTE 13. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated	
	2010	2009
	$'000	$'000
Goodwill - at cost	585	-
	585	-
Website - at cost	121	66
Less: Accumulated amortisation	(53)	(44)
	68	22
Patents and trademarks - at cost	422	363
Less: Accumulated amortisation	(189)	(155)
	233	208
	886	230

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill	Website	Patents and trademarks	Total
	$'000	$'000	$'000	$'000
Consolidated				
Balance at 1 July 2008	-	31	247	278
Additions	-	1	97	98
Impairment of assets -	-	-	(116)	(116)
Amortisation expense	-	(10)	(20)	(30)
Balance at 30 June 2009	-	22	208	230
Additions	-	55	59	114
Additions through business combinations (note 32)	585	-	-	585
Amortisation expense	-	(9)	(34)	(43)
Balance at 30 June 2010	585	68	233	886

NOTE 13. NON-CURRENT ASSETS – INTANGIBLES Continued

Impairment tests for goodwill

Goodwill is allocated to the consolidated entity's cash-generating units (CGUs) identified in accordance to business segment and country of operation. All of the goodwill has been allocated to the consolidated entity's UK operations.

The recoverable amount of the CGU has been determined based on its fair value less costs to sell. Management considers that the fair value is represented by the total consideration transferred on 1 April 2010, an observable market price with the transaction completed on an arm's length basis.

NOTE 14. NON-CURRENT ASSETS - DEFERRED TAX

	Consolidated	
	2010	**2009**
	$'000	$'000
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of comprehensive income:		
Tax losses	399	720
Other provisions and accruals	301	257
	700	977
Amounts recognised in equity:		
Transaction costs on share issue	98	163
	98	163
Deferred tax asset	798	1,140
Deferred tax asset to be recovered after more than 12 months	798	1,140
Movements:		
Opening balance	1,140	685
Credited/(charged) to the statement of comprehensive income (note 7)	(277)	515
Charged to equity	(65)	(60)
Closing balance	798	1,140

The consolidated entity has revised the carrying amount of its deferred tax asset in accordance with the guidance provided in AASB 112 'Income Taxes'. A summary of the critical accounting judgement is included in note 2

NOTE 15. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	2010	2009
	$'000	$'000
Trade payables	274	255
Accrued expenses	393	292
Other payables	346	331
	1,013	878

Foreign exchange and interest rate risk

Information about the consolidated entity's exposure to exposure to foreign currency risk and interest rate risk in relation to trade and other payables is provided in note 25.

NOTE 16. CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2010	2009
	$'000	$'000
Bank loans	207	154
Other loans	609	-
Lease liability	90	115
	906	269

Refer to note 18 for further information on assets pledged as security and financing arrangements and note 25 for detailed information on financial instruments.

NOTE 17. CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010	2009
	$'000	$'000
Employee benefits	113	78

NOTE 18. NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2010	**2009**
	$'000	$'000
Bank loans	658	678
Lease liability	97	109
	755	787

Refer to note 25 for detailed information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2010	**2009**
	$'000	$'000
Bank loans	865	832
Lease liability	187	224
	1,052	1,056

Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2010	**2009**
	$'000	$'000
Cash and cash equivalents	723	852
Receivables	959	1,086
Plant and equipment	217	1,135
	1,899	3,073

NOTE 18. NON-CURRENT LIABILITIES – BORROWINGS Continued

Financing arrangements

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

	Consolidated	
	2010	2009
	$'000	$'000
Total facilities		
Bank overdraft	500	250
Bank loans	865	832
	1,365	1,082
Used at the reporting date		
Bank overdraft	-	-
Bank loans	865	832
	865	832
Unused at the reporting date		
Bank overdraft	500	250
Bank loans	-	-
	500	250

NOTE 19. NON-CURRENT LIABILITIES - DEFERRED TAX

	Consolidated	
	2010	2009
	$'000	$'000
The balance comprises temporary differences attributable to:		
Amounts recognised in the statement of comprehensive income:		
Property, plant and equipment	-	18
Deferred tax liability	-	18
Deferred tax liability to be settled after more than 12 months	-	18
Movements:		
Opening balance	18	116
Credited to the statement of comprehensive income (note 7)	(18)	(98)
Closing balance	-	18

NOTE 20. NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010	2009
	$'000	$'000
Employee benefits	53	66
Lease make good	288	283
	341	349

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Lease make good
	$'000
Consolidated - 2010	
Carrying amount at the start of the year	283
Additional provisions recognised	5
Carrying amount at the end of the year	288

NOTE 21. EQUITY – CONTRIBUTED

	Consolidated		Consolidated	
	2010	2009	2010	2009
	Shares	Shares	$'000	$'000
Ordinary shares - fully paid	35,298,996	35,298,996	8,915	8,980

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$'000
Balance	1 July 2008	35,298,996		9,040
Less: Tax effect on transaction costs arising on share issue	30 June 2009	-	$0.00	(60)
Balance	30 June 2009	35,298,996		8,980
Less: Tax effect on transaction costs arising on share issue	30 June 2010	-	$0.00	(65)
Balance	30 June 2010	35,298,996		8,915

NOTE 21. EQUITY – CONTRIBUTED Continued

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2009 Annual Report.

The consolidated entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'trade and other payables' and 'borrowings' as shown in the statement of financial position) less 'cash and cash equivalents' as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position plus net debt.

The gearing ratio at the reporting date was as follows:

	Consolidated	
	2010	**2009**
	$'000	$'000
Current liabilities - trade and other payables (note 15)	1,013	878
Current liabilities - borrowings (note 16)	906	269
Non-current liabilities - borrowings (note 18)	755	787
Total borrowings	2,674	1,934
Current assets - cash and cash equivalents (note 8)	(723)	(852)
Net debt	1,951	1,082
Total equity	7,485	8,454
Total capital	9,436	9,536
Gearing ratio	21%	11%

NOTE 22. EQUITY – RESERVES

	Consolidated 2010	Consolidated 2009
	$'000	$'000
Foreign currency reserve	(33)	-
Share-based payments reserve	514	489
	481	489

	Foreign currency	Share-based payments	Total
	$'000	$'000	$'000
Consolidated			
Balance at 1 July 2008	-	313	313
Share-based payments	-	176	176
Balance at 30 June 2009	-	489	489
Foreign currency translation	(33)	-	(33)
Share-based payments	-	25	25
Balance at 30 June 2010	(33)	514	481

Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian Dollars

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

NOTE 23. EQUITY - ACCUMULATED LOSSES

	Consolidated 2010	Consolidated 2009
	$'000	$'000
Retained profits/(accumulated losses) at the beginning of the financial year	(1,015)	10
Loss after income tax (expense)/benefit for the year	(896)	(1,025)
Accumulated losses at the end of the financial year	(1,911)	(1,015)

NOTE 24. EQUITY – DIVIDENDS

There were no dividends paid during the current or previous financial year.

	Consolidated	
	2010	2009
	$'000	$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	320	320

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

NOTE 25. FINANCIAL RISK MANAGEMENT

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity'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 consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertake certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

	Assets		Liabilities	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Consolidated				
US Dollars	10	38	18	18
Euros	202	-	180	-
Pound Sterling	10	-	6	-
Swiss Francs	-	-	8	-
	222	38	212	18

NOTE 25. FINANCIAL RISK MANAGEMENT Continued

The consolidated entity had net assets denominated in foreign currencies of $10,000 (assets $222,000 less liabilities $212,000) as at 30 June 2010 (2009: $20,000 (assets $38,000 less liabilities $18,000)). Based on this exposure, had the Australian Dollar weakened/strengthened by 10% (2009: weakened/strengthened by 10%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been $1,000 lower/higher (2009: $2,000 lower/higher) and equity would have been $1,000 lower/higher (2009: $1,000 lower/higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2010 was $116,000 (2009: loss of $9,000).

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

For the consolidated entity the bank loans outstanding, totalling $1,475,000 (2009: $832,000), are principal and interest payment loans. Monthly cash outlays of approximately $11,000 (2009: $6,000) per month are required to service the interest payments. An official increase/decrease in interest rates of one (2009: one) percentage point would have an adverse/favourable affect on profit before tax of $15,000 (2009: $8,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of $817,000 (2009: $154,000) are due during the year ending 30 June 2011 (2009: 30 June 2010)

Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2010	**2009**
	$'000	$'000
Bank overdraft	500	250
	500	250

The bank overdraft facilities may be drawn at any time and is subject to an annual review by the bank.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

NOTE 25. FINANCIAL RISK MANAGEMENT Continued

Consolidated - 2010	**Weighted average interest rate**	**1 year or less**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Remaining contractual maturities**
	%	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	274	-	-	-	274
Accrued expenses	-	393	-	-	-	393
Other payables	-	346	-	-	-	346
Interest-bearing - fixed rate						
Bank loans	8.58	283	279	446	-	1,008
Other loans	6.50	629	-	-	-	629
Lease liability	9.00	105	114	-	-	219
Total non-derivatives		2,030	393	446	-	2,869

Consolidated - 2010	**Weighted average interest rate**	**1 year or less**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Remaining contractual maturities**
	%	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	255	-	-	-	255
Accrued expenses	-	292	-	-	-	292
Other payables	-	331	-	-	-	331
Interest-bearing - fixed rate						
Bank loans	8.58	219	256	512	-	987
Lease liability	9.00	122	136	-	-	258
Total non-derivatives		1,219	392	512	-	2,123

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed.

Fair value of financial instrument

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

The following persons were directors of Advanced Surgical Design & Manufacture Limited during the financial year:

Peter Kazacos	Non-Executive Director and Chairman
Dr Gregory James Roger	Executive Director and Chief Executive Officer
Walter Kmet	Non-Executive Director
John O'Meara (appointed on 1 March 2010)	Non-Executive Director

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES Continued

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Richard Ulrick	Company Secretary
Tom Milicevic	Chief Financial Officer
Jari Hyvarinen	Chief Operating Officer

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2010	**2009**
	$	$
Short-term employee benefits	681,036	734,243
Post-employment benefits	45,757	45,696
Termination benefits	9,845	11,290
Share-based payments	24,724	89,096
	761,362	880,325

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2010	**Balance at the start of the year**	**Received as part of re-muneration**	**Additions**	**Disposals**	**Balance at end of the year**
Ordinary shares					
Peter Kazacos	715,810	-	-	-	715,810
Gregory James Roger *	7,954,690	-	-	(400,000)	7,554,690
Walter Kmet	98,278	-	-	-	98,278
John O'Meara **	-	-	300,000	-	300,000
Richard Ulrick	85,334	-	92,119	-	177,453
Tom Milicevic	50,001	-	16,334	-	66,335
Jari Hyvarinen	8,668	-	-	-	8,668

* Disposals represents 400,000 shares transferred as a result of a Court Order

** Appointed during the year and additions represents existing shareholding at date of appointment.

2009	**Balance at the start of the year**	**Received as part of re-muneration**	**Additions**	**Disposals**	**Balance at end of the year**
Ordinary shares					
Peter Kazacos	632,142	-	83,668	-	715,810
Gregory James Roger	7,954,690	-	-	-	7,954,690
Walter Kmet	98,278	-	-	-	98,278
Richard Ulrick	34,334	-	51,000	-	85,334
Tom Milicevic	50,001	-	-	-	50,001
Jari Hyvarinen	8,668	-	-	-	8,668

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES Continued

Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2010	Balance at the start of the year	Granted	Exercised	Expired/ forfeited	Balance at the end of the year
Ordinary shares					
Peter Kazacos	106,000	-	-	-	106,000
Gregory James Roger	254,000	250,000	-	(250,000)	254,000
Walter Kmet	100,000	-	-	-	100,000
Tom Milicevic	200,000	-	-	-	200,000
Jari Hyvarinen	99,000	-	-	-	99,000

2009	Balance at the start of the year	Granted	Exercised	Expired/ forfeited	Balance at the end of the year
Ordinary shares					
Peter Kazacos	106,000	-	-	-	106,000
Gregory James Roger *	254,000	250,000	-	(250,000)	254,000
Walter Kmet	100,000	-	-	-	100,000
Tom Milicevic	200,000	-	-	-	200,000
Jari Hyvarinen	99,000	-	-	-	99,000

* Gregory James Roger was granted 250,000 options in 2009 which lapsed in the same year. This was due to performance criteria not being met on which the vesting of the options was contingent.

Related party transactions

Related party transactions are set out in note 30.

NOTE 27. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company, and its related practices:

	Consolidated 2010	Consolidated 2009
	$	$
Audit services - PricewaterhouseCoopers		
Audit or review of the financial report	96,000	88,000
Other services - PricewaterhouseCoopers		
Tax compliance services	21,318	33,689
Tax consulting and advice	-	4,539
Audit of regulatory returns	-	2,200
Other assurance services	13,750	44,000
	35,068	84,428
	131,068	172,428

NOTE 28. CONTINGENT LIABILITIES

The consolidated entity had no contingent liabilities at 30 June 2010 and 30 June 2009.

NOTE 29. COMMITMENTS FOR EXPENDITURE

	Consolidated	
	2010	**2009**
	$'000	$'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	707	695
One to five years	1,225	2,038
	1,932	2,733
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	105	122
One to five years	114	136
Total commitment	219	258
Less: Future finance charges	(32)	(34)
Net commitment recognised as liabilities	187	224
Representing:		
Lease liability - current (note 16)	90	115
Lease liability - non-current (note 18)	97	109
	187	224

The future minimum non-cancellable sub-lease operating lease payments expected to be received by the consolidated entity is $100,000 (2009: $106,000).

Operating lease commitments includes contracted amounts for various offices and plant and equipment under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of $217,000 (2009: $1,135,000) under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

NOTE 30. RELATED PARTY TRANSACTIONS

Parent entity
Advanced Surgical Design & Manufacture Limited is the parent entity

Subsidiaries
Interests in subsidiaries are set out in note 33.

Key management personnel
Disclosures relating to key management personnel are set out in note 26 and the directors' report.

Transactions with related parties
The following transactions occurred with related parties:

NOTE 30. RELATED PARTY TRANSACTIONS Continued

	Consolidated	
	2010	2009
	$	$
Payment for goods and services:		
Purchases of computer hardware, software and installation from PK Business Advantage Pty Limited (director-related entity of Peter Kazacos)	27,139	143,186
Purchases of computer equipment from PK Business Advantage Pty Limited (director-related entity of Peter Kazacos)	-	21,577
Fee for maintenance and support services from PK Business Advantage Pty Limited (director-related entity of Peter Kazacos)	42,000	35,350

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the reporting date.

Loans to/from related parties

There were no loans to or from related parties at the reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 31. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent	
	2010	2009
	$'000	$'000
Loss after income tax	(830)	(1,025)
Total comprehensive income	(830)	(1,025)

Statement of financial position

	Parent	
	2010	2009
	$'000	$'000
Total current assets	4,444	4,814
Total assets	9,909	10,833
Total current liabilities	1,229	1,225
Total liabilities	2,325	2,379
Equity		
Contributed equity	8,915	8,980
Reserves	514	489
Accumulated losses	(1,845)	(1,015)
Total equity	7,584	8,454

Contingent liabilities

The parent entity had no contingent liabilities at 30 June 2010 and 30 June 2009.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- accounted for at cost, less any impairment.

NOTE 32. BUSINESS COMBINATIONS

On 1 April 2010, ASDM Holdings Pty Limited, a subsidiary, acquired 100% of the ordinary shares of Advanced Surgical Design & Manufacture (UK) Limited (incorporated in the United Kingdom) for $17,000. The principal activity of Advanced Surgical Design & Manufacture (UK) Limited is the sale and distribution of surgical implants. The acquired business contributed revenues of $139,000 and a loss after tax of $52,000 to the consolidated entity for the period from 1 April 2010 to 30 June 2010. If the acquisition occurred on 1 July 2009, the full year contributions would have been revenues of $1,061,000 and a loss after tax of $433,000. The values identified in relation to the acquisition of Advanced Surgical Design & Manufacture (UK) Limited final at 30 June 2010.

Details of the acquisition are as follows:

	Acquiree's carrying amount	**Fair value**
	$'000	$'000
Cash equivalents	32	32
Trade receivables	188	188
Other receivables	-	13
Inventories	370	233
Plant and equipment	-	1
Trade payables	(318)	(318)
Other payables	(158)	(158)
Other loans	(559)	(559)
Net liabilities acquired	(445)	(568)
Goodwill		585
Acquisition-date fair value of the total consideration transferred		17
Representing:		
Cash paid or payable to vendor		17

	Consolidated	
	2010	**2009**
	$'000	$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	17	-
Less: cash equivalents	(32)	-
Net cash used	(15)	-

NOTE 33. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Equity holding	
Name of entity	**Country of incorporation**	**2010 %**	**2009 %**
ASDM Holdings Pty Limited	Australia	100.00	100.00
Advanced Surgical Design & Manufacture (UK) Limited	United Kingdom	100.00	-

NOTE 34. ECONOMIC DEPENDENCY

The consolidated entity depends for a significant volume of revenue on relationships with key surgeons being Dr Bartlett, Dr Cross and Dr Wood. The consolidated entity, however, believes that it would be able to manage the transition to another surgeon should the relationship with any of these surgeons cease.

NOTE 35. EVENTS OCCURRING AFTER THE REPORTING DATE

The consolidated entity has refinanced its existing facility with a new asset finance facility of $1.6m with the Commonwealth Bank which will provide it with additional working capital in excess of $750,000.

The consolidated entity announced the appointment of Mr Michael Spooner as a Non-Executive Director on 13 September 2010.

No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

NOTE 36. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated	
	2010	**2009**
	$'000	$'000
Loss after income tax (expense)/benefit for the year	(896)	(1,025)
Adjustments for:		
Depreciation and amortisation	1,124	803
Net loss/(gain) on disposal of non-current assets	1	(3)
Share-based payments	25	176
Foreign exchange differences	(33)	-
Impairment of intangible assets	-	116
Change in operating assets and liabilities:		
Decrease in trade and other receivables	318	861
(Increase)/decrease in inventories	273	(165)
(Increase)/decrease in deferred tax assets	277	(515)
Decrease in prepayment	18	7
Decrease in trade and other payables	(342)	(85)
Decrease in deferred tax liabilities	(18)	(98)
Increase in employee benefits	22	22
Increase in other provisions	-	32
Net cash from operating activities	769	126

NOTE 37. NON-CASH INVESTING AND FINANCING ACTIVITIES

	Consolidated	
	2010	2009
	$'000	$'000
Leasehold improvements - lease make good	5	32

NOTE 38. EARNINGS PER SHARE

	Consolidated	
	2010	2009
	$'000	$'000
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	(896)	(1,025)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	35,298,996	35,298,996
Weighted average number of ordinary shares used in calculating diluted earnings per share	35,298,996	35,298,996

	Cents	Cents
Basic earnings per share	(2.54)	(2.90)
Diluted earnings per share	(2.54)	(2.90)

Options granted to employees under the Employee Option Plan for year ended 30 June 2010 and prior years are not included in the determination of diluted earnings per share because they are anti-dilutive for the year. These options could potentially dilute basic earnings per share in the future. The options have not been included in the determination of basic earnings per share.

NOTE 39. SHARE-BASED PAYMENTS

The company has established an Employee Share Option Plan approved by shareholders at an Extraordinary General Meeting held in May 2006. Key management personnel's long-term incentives will by way of participation in the Option Plan. This long-term incentive program aligns the interests of key management personnel more closely with those of ASDM shareholders and rewards sustained superior performance.

The objective of the Option Plan is to assist in the recruitment, reward, retention and motivation of employees of ASDM while advancing the interests of the company by affording such persons the opportunity of benefiting from increases in shareholder value, thereby more closely aligning their interests with those of shareholders.

Conditional upon listing on the ASX, the company agreed as part of their terms of engagement to issue 106,000 options and 100,000 options, with an exercise price of $0.50 per share, that would vest immediately and expire 5 years from the date of listing to each of Peter Kazacos and Walter Kmet respectively. Greg Roger holds 254,000 options with an exercise price of $0.50 per share that vest on 30 June 2009 and expire on 30 June 2012. As part of the arrangement to secure his services the company's Chief Financial Officer, Tom Milicevic was issued 200,000 options with an exercise price of $0.60 per share, that vest 3 years from the date of issue and expire 6 years from the date of issue.

Options under the Option Plan are granted for no consideration. Any options granted do not give any right to participate in dividends or rights issues until shares are allotted pursuant to the exercise of the relevant option. Options granted under the Plan are not transferable.

Set out below are summaries of options granted under the plan:

2010

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Forfeited	Balance at the end of the year
01/07/07	30/06/12	$0.50	254,000	-	-	-	254,000
01/07/07	05/12/12	$0.50	206,000	-	-	-	206,000
16/11/07	16/11/13	$0.60	200,000	-	-	-	200,000
30/11/07	30/06/11	$0.60	735,000	-	-	(99,000)	636,000
03/12/09	07/09/12	$0.60	-	250,000	-	(250,000)	-
26/03/10	30/06/13	$0.60	-	30,000	-	(2,000)	28,000

2009

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Forfeited	Balance at the end of the year
01/07/07	30/06/12	$0.50	254,000	-	-	-	254,000
01/07/07	05/12/12	$0.50	206,000	-	-	-	206,000
16/11/07	16/11/13	$0.60	200,000	-	-	-	200,000
30/11/07	30/06/11	$0.60	1,023,000	-	-	(288,000)	735,000
12/11/08	07/09/11	$0.60	-	250,000	-	(250,000)	-

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.82 years (2009: 2.17 years).

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Peter Kazacos
Director

27 September 2010
Sydney

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of Advanced Surgical Design and Manufacture Limited

Report on the financial report

We have audited the accompanying financial report of Advanced Surgical Design and Manufacture Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Advanced Surgical Design and Manufacture Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Advanced Surgical Design and Manufacture Limited

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Advanced Surgical Design and Manufacture Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 17 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Advanced Surgical Design and Manufacture Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
27 September 2010

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 14 September 2010.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding

	Ordinary shares
1 to 1,000	15
1,001 to 5,000	160
5,001 to 10,000	111
10,001 to 100,000	94
100,001 and over	28
	408
Holding less than a marketable parcel	15

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	**% of total shares issued**
Cryptych Pt Ltd	7,422,856	21.03
Marie Caroll & Dawson Caroll	5,636,285	15.97
Peter Welsh	4,473,685	12.67
Welsh Superannuation Pty Limited	2,600,000	7.37
Mergin Investments Pty Ltd <M&V Cross Super Fund>	2,332,857	6.61
Thomas James Carroll	1,000,000	2.83
Kenneth Campbell	1,000,000	2.83
Misty Hills Nominees Pty Ltd	892,857	2.53
Cassidy Investments Pty Limited <Michael O'Sullivan Super Fund A/C>	572,140	1.62
Destin Pty Limited	572,000	1.62
Nicole Roger	403,334	1.14
Mr John Catherwood Young & Mrs Corinne Girard Young <Cartesia Super Fund A/C>	318,713	0.90
Simon Roberts	309,358	0.88
Feta Nominees Pty Ltd	309,218	0.88
Pittar Nominees Pty Ltd <The Pittar Family A/C>	300,031	0.85
Leslie Harry Cross	300,000	0.85
John O'Meara & Margaret O'Meara	300,000	0.85
Desmond J Bokor Pty Limited	286,000	0.81
Waugoola Pty Ltd <Wood Super Fund>	286,000	0.81
Oakwork Pty Limited	239,470	0.68
	29,554,804	83.73

SHAREHOLDER INFORMATION Continued

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	1,324,000	34

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Cryptych Pty Ltd and Gregory James Roger	7,554,690	21.97
Peter Welsh and Welsh Superannuation Pty Limited	7,073,685	20.04
Marie Caroll & Dawson Caroll	5,636,285	15.97
Mergin Investments Pty Ltd	2,332,857	6.61

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Enquiries about your shareholding

Please contact Link Market Services Limited, the Company's share registry, for all questions in relation to your shareholding. The link http://www.linkmarketservices.com.au/public/help/faq.html provides answers to some frequently asked questions by shareholders. Shareholders are able to download some common forms (including change of address) from the same link.

See Directory in this report for other contact details.

Shareholder communications

The Company publishes information for its shareholders in the annual report, quarterly newsletters and via releases to the ASX. Investor Information can be found on our website: www.asdm.com.au

CORPORATE DIRECTORY

Directors	Peter Kazacos B.E, B.Sc Dr Gregory James Roger MB BS, M Eng (Res) Walter Kmet BComm, GDhthSrvMt, MBT, FAIM John O'Meara PCM Michael Spooner BCom, ACA, MAICD
Company secretary	Richard Ulrick BA, LLB, Dip Fin Mgt, FCIS, CPA
Notice of annual general meeting	The annual general meeting of Advanced Surgical Design & Manufacture Limited: will be held at: Unit 2, 12 Frederick Street, St Leonards NSW 2065 time: 11:00 AM date: Friday 5 November 2010
Registered office	Unit 2/12 Frederick Street St Leonards NSW 2065
Principal place of business	Unit 2/12 Frederick Street St Leonards NSW 2065
Share register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street Sydney NSW 2000
Solicitors	Watson Mangioni Level 13 50 Carrington Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia PO Box 327 Silverwater NSW 2128
Stock exchange listing	Advanced Surgical Design & Manufacture Limited shares are listed on the Australian Securities Exchange (code: AMT)
Website address	www.asdm.com.au