

APPENDIX 4D HALF-YEAR REPORT

1. Company details

Name of entity:	Advanced Surgical Design & Manufacture Limited
ABN:	71 066 281 132
Reporting period:	Half-year ended 31 December 2010
Previous corresponding period:	Half-year ended 31 December 2009

2. Results for announcement to the market

Revenues from ordinary activities	down 14.8%	to	\$ 3,377,000
Loss from ordinary activities after tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	down 3282.4%	to	\$(1,623,000)
Loss for the period attributable to the owners of Advanced Surgical Design & Manufacture Limited	down 3282.4%	to	\$(1,623,000)

Dividends

There were no dividends paid during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$1,623,000 (31 December 2009: profit of \$51,000).

Refer to directors report for further commentary.

3. NTA backing

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary security	14.30 cents	23.18 cents

4. Control gained over entities

Name of entities (or group of entities) Not applicable.

Date control gained

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material) \$ -

Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period (where material) \$ -

5. Loss of control over entities

Name of entities (or group of entities) Not applicable.

Date control lost

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)

\$ -

Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)

\$ -

6. Dividends

Current period

There were no dividends paid during the current financial period.

Previous corresponding period

There were no dividends paid during the previous financial period.

7. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

Not applicable.

The last date(s) for receipt of election notices for the dividend or distribution plans: Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Current period	Previous corresponding period	Current period	Previous corresponding period
Not applicable.				
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit(loss) from ordinary activities before income tax			\$ -	\$ -
Income tax on operating activities			\$ -	\$ -

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Advanced Surgical Design & Manufacture (UK) Limited, a subsidiary of Advanced Surgical Design & Manufacture Limited, was prepared under the UK GAAP.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The accounts were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Advanced Surgical Design & Manufacture Limited for the half-year ended 31 December 2010 is attached.

12. Signed

Signed: _____



Date: 28 February 2011

Peter Kazacos
Director
Sydney

Advanced Surgical Design & Manufacture Limited
ABN 71 066 281 132

Interim Report - 31 December 2010

Advanced Surgical Design & Manufacture Limited

Directors' report

31 December 2010

The directors present their report, together with the financial statements, 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 half-year ended 31 December 2010.

Directors

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

Peter Kazacos

Gregory James Roger

Walter Kmet (resigned on 5 November 2010)

John O'Meara

Michael Spooner (appointed 13 September 2010 and resigned 16 February 2011)

Principal activities

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

Advanced Surgical Design & Manufacture Limited ('ASDM') is a medical device company with activities spanning product research and development, manufacturing, sales and distribution. Established in 1994, ASDM is an ISO:13485 accredited manufacturing facility with a presence across Australia, UK, Europe and the United States.

ASDM has been recognised as a premier design and manufacturing organisation with a one product focus – the Active Total Knee Replacement. Over the last 6 months ASDM has executed on a strategy of diversifying its product portfolio by adding complementary high quality devices and clinical solutions.

These products include:

- Permedica - Australasian Distribution Rights for the Italian orthopaedic manufacturer
- Arthrosurface - Australasian Distribution Rights for the joint resurfacing products from US manufacturer
- Parcus Medical - Australasian Distribution Rights for the sports medicine fixation system devices from US manufacturer

These products continue the focus in the orthopaedic medical device segment and provide our existing customers with additional clinical solutions. It also provides a mechanism for our sales infrastructure to open up additional sales channels. The Australian Total Hip and Total Knee Replacement market is valued at approximately \$0.5 billion per annum and with annual growth rates of 8-10%.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$1,623,000 (31 December 2009: profit of \$51,000).

The reduction is due to the non-recurring sale of intellectual property to Stryker in the prior period which had a direct profit impact of \$1.3 million. There were also increased administration and research and development costs.

Revenue and gross margin

Total revenue for the half-year was \$3.4 million (Dec-09: \$4.0 million). Last year's revenue was positively impacted by the sale of intellectual property relating to the Active Uni-Compartmental Knee system to Stryker Corporation for \$1.3 million.

Excluding this transaction core product sales for the half-year were \$3.4 million (Dec-09: \$2.6 million) representing a 26% increase over the same period last year. Importantly, this growth was across all markets and all product categories. This growth is expected to continue for the balance of the financial year and will be further strengthened by the introduction of our new products.

During the prior financial year, we largely completed the balance of our instrument sets and currently have 50 sets available to our sales team. The benefit of the completion of this milestone is highlighted by our stronger margin during the half-year as our ability to take advantage of sales growth opportunities was achieved without an increase in production costs.

Advanced Surgical Design & Manufacture Limited
Directors' report
31 December 2010

Corporate and administration expenses

Corporate and administration expenses include accounting, administration, legal, insurance and other public company costs. Administration expenses for the half-year were \$1.4 million (Dec-09: \$1.2 million). Administration expenses increased in the current half-year due to professional costs associated with the strategic review undertaken by the consolidated entity.

Quality and research and development expenses

Research & development expenses increased by approximately \$0.5 million in the first half of fiscal 2011 to \$1.1 million (Dec-09: \$0.6 million). There are two major components to quality and research and development expenses:

1. Orthopaedic unit - accounts for 52% of the total spend for the half-year ended 31 December 2010. This relates to supporting the current device family as well as modification and new product design. Added to this primary function is the cost associated with the Quality Management System to ensure all processes within the organisation are maintained to a level commensurate with the industry in which ASDM operates. These are constantly under review to ensure we are developing enhanced manufacturing processes and driving efficiencies in all aspects of design and manufacture.

2. Vascular unit – The primary focus of the vascular unit has been the development of the Peripheral Access Device ('PAD'). The PAD currently has CE Mark approval for use as an access device and ASDM is currently sponsoring an approval trial for the use of the device in treatment of Peripheral Vascular Disease ('PVD'). The treatment for PVD involves implantation of two PAD systems to allow reperfusion of the limb at an elevated pressure and flow by a pump connected to the arterial system in the affected limb through the PAD implants. During the half-year ended 31 December 2010, increased costs in this project were related to the achievement of specific milestones, including completion of Technical File documentation. It is anticipated that costs moving forward will be reduced to reflect a run rate equivalent to a clinical trial monitoring level as product development is largely completed.

Sales & Marketing

Sales & marketing costs have increased to \$0.9 million (Dec-09: \$0.5 million). This is a result of the strategic decision over the past 12 months to increase our brand awareness and presence in the marketplace. During FY10, our sales channels expanded to include additional domestic and international markets. Consequently, our domestic sales team has tripled compared to the same period last year and contributed to the company's growth in core product revenue during the period. The half-year ended 31 December 2010, is the first trading period the company has experienced the full impact of these costs.

Cash position

The cash balance at 31 December 2010 was in overdraft by \$37,000 compared to a positive cash balance of \$723,000 at 30 June 2010. As announced in the last quarter of the 2010 calendar year, the consolidated entity had entered into a number of strategic alliances with international medical device companies for the exclusive Australasian distribution rights. During December 2010 a payment was made to ArthroSurface, Inc. totalling \$400,000 to acquire the stock associated with the distribution rights. Sales in this product category are ahead of budget and are acting as a catalyst for additional sales growth in our existing product lines. As regulatory approvals are obtained for the remainder of the distribution arrangements announced, Permedica and Parcus Medical, there will be additional stock purchases to take advantage of these sales opportunities.

Summary

ASDM has achieved strong sales growth of 26% over the current half-year period across all product categories and markets. It is expected that this trend will continue for the balance of the financial year. We are excited by our growth prospects and the appointment of Ms Jenny Swain as the National Sales Manager will further enhance and develop our sales performance and market penetration.

The consolidated entity continues to be an agile participant in the highly competitive medical device industry with a solid platform positioned for further growth.

Significant changes in the state of affairs

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

Advanced Surgical Design & Manufacture Limited
Directors' report
31 December 2010

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'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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Kazacos
Director

28 February 2011
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Advanced Surgical Design & Manufacture Limited for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Manoj Santiago', written in a cursive style.

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
28 February 2011

Advanced Surgical Design & Manufacture Limited
Financial report
For the half-year ended 31 December 2010

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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 28 February 2011. The directors have the power to amend and reissue the financial report.

Advanced Surgical Design & Manufacture Limited
Statement of comprehensive income
For the half-year ended 31 December 2010

		Consolidated	
	Note	31/12/2010	31/12/2009
		\$'000	\$'000
Revenue	3	3,377	3,964
Other income	4	4	8
Expenses			
Cost of sales and purchases of consumables		(1,535)	(1,663)
Corporate and administration expenses		(1,383)	(1,170)
Quality and research and development expenses		(1,097)	(623)
Sales and marketing expense		(883)	(469)
Finance costs		(106)	(53)
Loss before income tax benefit		(1,623)	(6)
Income tax benefit		-	57
Profit/(loss) after income tax benefit for the half-year attributable to the owners of Advanced Surgical Design & Manufacture Limited		(1,623)	51
Other comprehensive income			
Foreign currency translation		79	-
Other comprehensive income for the half-year, net of tax		79	-
Total comprehensive income for the half-year attributable to the owners of Advanced Surgical Design & Manufacture Limited		(1,544)	51
		Cents	Cents
Basic earnings per share	10	(4.60)	0.14
Diluted earnings per share	10	(4.60)	0.14

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

Advanced Surgical Design & Manufacture Limited
Statement of financial position
As at 31 December 2010

		Consolidated	
	Note	31/12/2010	30/06/2010
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	5	-	723
Trade and other receivables		1,009	1,005
Inventories		3,113	2,834
Total current assets		<u>4,122</u>	<u>4,562</u>
Non-current assets			
Receivables		211	205
Property, plant and equipment		3,876	4,162
Intangibles		897	886
Deferred tax		799	798
Total non-current assets		<u>5,783</u>	<u>6,051</u>
Total assets		<u>9,905</u>	<u>10,613</u>
Liabilities			
Current liabilities			
Trade and other payables		1,086	1,013
Borrowings		991	906
Provisions		163	113
Total current liabilities		<u>2,240</u>	<u>2,032</u>
Non-current liabilities			
Borrowings		1,397	755
Provisions		324	341
Total non-current liabilities		<u>1,721</u>	<u>1,096</u>
Total liabilities		<u>3,961</u>	<u>3,128</u>
Net assets		<u>5,944</u>	<u>7,485</u>
Equity			
Contributed equity		8,915	8,915
Reserves		563	481
Accumulated losses		<u>(3,534)</u>	<u>(1,911)</u>
Total equity		<u>5,944</u>	<u>7,485</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of changes in equity
For the half-year ended 31 December 2010

	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2009	8,980	489	(1,015)	8,454
Other comprehensive income for the half-year, net of tax	-	-	-	-
Profit/(loss) after income tax benefit for the half-year	-	-	51	51
Total comprehensive income for the half-year	-	-	51	51
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	(32)	-	-	(32)
Share-based payments	-	12	-	12
Balance at 31 December 2009	<u>8,948</u>	<u>501</u>	<u>(964)</u>	<u>8,485</u>
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2010	8,915	481	(1,911)	7,485
Other comprehensive income for the half-year, net of tax	-	79	-	79
Profit/(loss) after income tax benefit for the half-year	-	-	(1,623)	(1,623)
Total comprehensive income for the half-year	-	79	(1,623)	(1,544)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	3	-	3
Balance at 31 December 2010	<u>8,915</u>	<u>563</u>	<u>(3,534)</u>	<u>5,944</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of cash flows
For the half-year ended 31 December 2010

Note	Consolidated	
	31/12/2010 \$'000	31/12/2009 \$'000
Cash flows from operating activities		
	3,658	4,546
	(4,795)	(3,768)
	(1,137)	778
Interest received	12	3
Interest and other finance costs paid	(106)	(53)
	(1,231)	728
Cash flows from investing activities		
	(186)	(462)
	(33)	(22)
	(219)	(484)
Cash flows from financing activities		
	1,600	204
	(868)	(79)
	(42)	(79)
	690	46
	(760)	290
	723	851
	(37)	1,141
5		

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2010

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New, revised or amending Accounting Standards and Interpretations adopted

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

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

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

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 101 'Presentation of Financial Statements' - classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty; AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as a cash flow from investing activities; AASB 117 'Leases' - removal of specific guidance on classifying land as a lease; AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 127 'Consolidated and Separate Financial Statements' ('AASB 127') and AASB 3 Business Combinations ('AASB 3') - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited at proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2010

Note 1. Significant accounting policies (continued)

Going concern

At 31 December 2010, the consolidated entity has a cash overdraft of \$37,000 and has incurred a loss after tax of \$1,623,000 and negative cash flows from operations of \$1,231,000 for the half-year ended on that date. Operating cash flows have been negatively impacted by continued research and development expenditure for the PAD project, increase in consulting fees for the consolidated entity's strategic review and investment in the consolidated entity's national sales team.

Subsequent to 31 December 2010, the consolidated entity has:

- executed a mandate letter on 28 February 2011 with Kaz Capital Pty Ltd, a director related entity, to assist in raising capital through private placement up to \$3 million to sophisticated investors. The mandate also includes the option for an accelerated 'Broker Firm Pool' placement of \$200,000 to assist the consolidated entity in meeting any short term working capital requirements; and
- negotiated and signed an unsecured loan facility on 28 February 2011 for \$600,000 with a related party which will be available for draw down until 30 June 2011 and repayable by the consolidated entity by 29 June 2012.

The continuing viability of the consolidated entity and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the consolidated entity being successful in:

- i) negotiating and obtaining additional debt or equity funding either from the above private placement or alternate method of fund raising; and
- ii) achieving projected sales growth from its additional investment in sales staff and new products.

As a result of these matters, there is material uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the directors believe that the consolidated entity will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2010. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Note 2. Operating segments

Identification of reportable operating segments

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2010

Note 3. Revenue

	Consolidated	
	31/12/2010	31/12/2009
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	3,289	2,609
Sale of intellectual property	-	1,280
	<u>3,289</u>	<u>3,889</u>
<i>Other revenue</i>		
Interest	12	3
Sub-lease rentals	76	72
	<u>88</u>	<u>75</u>
Revenue	<u><u>3,377</u></u>	<u><u>3,964</u></u>

Note 4. Other income

	Consolidated	
	31/12/2010	31/12/2009
	\$'000	\$'000
Other income	<u>4</u>	<u>8</u>

Note 5. Current assets - cash and cash equivalents

	Consolidated	
	31/12/2010	30/06/2010
	\$'000	\$'000
Cash at bank and on hand	<u>-</u>	<u>723</u>

	Consolidated	
	31/12/2010	31/12/2009
	\$'000	\$'000
<i>Reconciliation to cash and cash equivalents at the end of the financial half-year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial half-year as shown in the statement of cash flows as follows:		
Cash and cash equivalents	-	1,141
Bank overdraft	<u>(37)</u>	<u>-</u>
Balance as per statement of cash flows	<u><u>(37)</u></u>	<u><u>1,141</u></u>

Note 6. Equity - dividends

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2010

Note 7. Contingent liabilities

The consolidated entity had no contingent liabilities at 31 December 2010.

Note 8. Related party transactions

Michael Spooner a former director of the company, through an associate company Spooner Group Pty Ltd, was engaged to assist the company in outlining a strategic plan and assisting in the rollout of that review for the period 14 September 2010 to 31 December 2010. During this period, a total of \$147,500 was invoiced for these services related to the consulting agreement. As of 31 December 2010 this agreement has not been renewed.

Note 9. Events occurring after the reporting date

On 28 February 2011 the consolidated entity executed a mandate letter with Kaz Capital Pty Ltd, a director related entity, to assist it in identifying potential sources for future capital raising initiatives. The mandate also includes the option for an accelerated 'Broker Firm Pool' placement of \$200,000 to assist the consolidated entity in meeting any short term working capital requirements.

On 28 February 2011 the consolidated entity negotiated and signed an unsecured loan facility for \$600,000 at an interest rate of 12% per annum with a related party which will be available for draw down at any time until 30 June 2011 and is repayable by the consolidated entity by 29 June 2012.

No other matter or circumstance has arisen since 31 December 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 10. Earnings per share

	Consolidated	
	31/12/2010	31/12/2009
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	<u>(1,623)</u>	<u>51</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>35,298,996</u>	<u>35,298,996</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>35,298,996</u>	<u>35,298,996</u>
	Cents	Cents
Basic earnings per share	(4.60)	0.14
Diluted earnings per share	(4.60)	0.14

Advanced Surgical Design & Manufacture Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors



Peter Kazacos
Director

28 February 2011
Sydney



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Advanced Surgical Design & Manufacture Limited, which comprises the balance sheet as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Advanced Surgical Design & Manufacture Limited Group (the consolidated entity). The consolidated entity comprises both Advanced Surgical Design & Manufacture Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Advanced Surgical Design & Manufacture Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.



Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Surgical Design & Manufacture Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the company's continuation as a going concern depends on its success in obtaining additional capital or other funds and ultimately its ability to generate increased revenues and profits. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and, therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the half-year financial report.

PRICEWATERHOUSE COOPERS

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Manoj Santiago', written in a cursive style.

Manoj Santiago
Partner

Sydney
28 February 2011