

## APPENDIX 4E

# PRELIMINARY FINAL REPORT

### 1. Company details

Name of entity:	<b>Advanced Surgical Design &amp; Manufacture Limited</b>
ABN:	71 066 281 132
Reporting period:	<b>Year ended 30 June 2011</b>
Previous corresponding period:	Year ended 30 June 2010

### 2. Results for announcement to the market

Revenues from ordinary activities	down	1.3%	to	\$ 7,370,000
Loss from ordinary activities after tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	up	264.4%	to	\$(3,265,000)
Loss for the period attributable to the owners of Advanced Surgical Design & Manufacture Limited	up	264.4%	to	\$(3,265,000)

#### *Dividends*

There were no dividends paid or declared during the current financial period.

#### *Comments*

The loss for the consolidated entity after providing for income tax amounted to \$3,265,000 (30 June 2010: \$896,000).

Refer to directors report attached for further information.

### 3. NTA backing

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary security	11.24 cents	18.69 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 or declared during the current financial period.

*Previous corresponding period*

There were no dividends paid or declared 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:*

Not applicable.

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**10. Audit qualification or review**

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

The accounts have been audited and an unqualified opinion has been issued.

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**11. Attachments**

*Details of attachments (if any):*

The Annual Report of Advanced Surgical Design & Manufacture Limited for the year ended 30 June 2011 is attached.

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**12. Signed**



Signed: \_\_\_\_\_

Date: 31 August 2011

Peter Kazacos  
Director  
Sydney

**Advanced Surgical Design & Manufacture Limited**  
**ABN 71 066 281 132**

**Annual Report - 30 June 2011**

**Advanced Surgical Design & Manufacture Limited**  
**Corporate directory**  
**30 June 2011**

Directors	Peter Kazacos B.E, B.Sc Dr Gregory James Roger MB BS, M Eng (Res) John O'Meara PCM
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 Tuesday 25 October 2011
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 (ASX code: AMT)
Website address	<a href="http://www.asdm.com.au">www.asdm.com.au</a>

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

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 year ended 30 June 2011.

**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 - Chairman

Gregory James Roger

John O'Meara

Walter Kmet (resigned on 5 November 2010)

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

**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 or declared during the current or previous financial year.

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to \$3,265,000 (30 June 2010: \$896,000).

This result is after the expensing of all research and development related expenses. Earnings per share for 2011 was a loss of 9.25 cents per share, an increase from a loss of 2.54 cents for 2010.

**Revenue**

Total revenue for the year ended 30 June 2011 ('FY11') was approximately \$7.4 million, representing an increase of 19% when the \$1.3m sale of intellectual property is excluded from the 2010 financial year ('FY10'). Core product sales growth continued and was up 19% with pricing across product lines remaining strong.

The addition of new product lines in FY11 has complemented our existing range and will assist us in continuing to drive growth through our current and newly developed sales channels.

The Total Active Knee remains the only total knee product in the Australian marketplace with a successful clinical history beyond 19 years.

**Net loss from ordinary activities**

The consolidated entity's earnings before interest, tax and depreciation and amortisation ("EBITDA") in FY11 was a loss of \$1.7m compared to an EBITDA profit of \$1.2m in FY10 which was largely the result of the \$1.3m intellectual property transaction in the prior year. During the first half of FY11 we completed the balance of our 50 instrument sets which positions us to convert sales opportunities and maintain our sales growth curve. Completing the instrument sets enabled the consolidated entity to establish a more efficient production line to deliver improved margins.

Corporate and administration expense have been impacted by a number of key strategic decisions. During the year the consolidated entity completed a corporate strategic review at a cost of \$0.2m. The review confirmed the need for a greater product range to enable our sales channel to drive further value and identified the need to find alternate solutions to the development of non-core research projects via partnering or other structured vehicles. In addition, considering the financial instability in Europe the consolidated entity provided for \$0.1m in bad debts and recognised an impairment charge on goodwill of \$1.2m for the UK business. Although having a significant impact on the current year's result the outcome is a stronger balance sheet moving into a period of growth for the consolidated entity.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

During the year we continued the rollout of our domestic geographical expansion program with Western Australia now covered and strong sales coming from that market. This investment in geographic expansion has contributed to an increased sales and marketing related spend of \$0.6m compared to FY10. Whilst total knee replacement remains one of the strongest surgeon preference items in orthopaedics there traditionally has been a significant time lag between sales and marketing expenses and the corresponding revenue growth.

Research and development ('R&D') expense increased by approximately \$0.6m to \$2.0m (30 June 2010: \$1.4m). The two components to supporting our research and development expenses are:

1. Orthopaedic Unit – this segment accounted for 59% of the total R&D spend for FY11. A significant achievement during the period was the completion of a design and production project with a number of surgeons which is now in clinical evaluation with revenue expected in FY12. Other costs relate to the support of the current device family as well as modifications and product design. Added to this primary function is the high cost associated with the enhancement of the Quality Management System. This ensures all processes and procedures within the organisation are maintained to a level commensurate with the industry in which the consolidated entity operates and maintaining our ISO:13485 accreditation.

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 consolidated entity 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 FY11, the costs for this project were related to the achievement of specific milestones including completion of Technical File documentation. Costs have been reduced to reflect a run rate equivalent to a clinical trial monitoring level as product development is now complete.

***Cash position***

The cash balance at 30 June 2011 was an overdraft of \$0.2m, with operating cash flow performance improving significantly during the second half of the financial year. During the year, consolidated entity signed a number of distributor agreements and there was a capital requirement to commence operations. In December 2010, a payment was made to Arthrosurface, Inc. totalling \$400,000 to acquire the stock associated with the distribution rights. Sales for this product category were ahead of our initial expectations in 2012 and are acting as a catalyst for additional sales growth in our existing product lines. With our expected sales growth, operating cash flow improvements are anticipated.

**Significant changes in the state of affairs**

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

**Matters subsequent to the end of the financial year**

On 25 August 2011 the consolidated entity secured a line of credit from a related party for \$250,000 which will assist it with its growth expansion plans.

On 25 August 2011 the consolidated entity extended the maturity on its related party loan until December 2012 (noted the loan will be repaid by the consolidated entity between December 2012 and June 2013, in accordance with the terms of the loan).

No other matter or circumstance has arisen since 30 June 2011 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.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

**Likely developments and expected results of operations**

FY11 was a difficult year with a disappointing financial result. However our achievements over the course of FY11 have placed us in a strong position to deliver revenue growth and return to profit in 2012. During the current year we have continued to grow our product range with the signing of a number of distribution agreements and invested further in enhancing our sales and marketing capabilities by expanding into Western Australia and completing the balance of new instruments sets. Added to this is the appointment of a national sales manager all of which are critical to executing on this strategy.

In the year ahead we will continue to drive both the commercial and development aspects of our business to ensure we remain focused on the goal of building shareholder wealth.

Our core product, the Active Total Knee replacement, will reach 20 years of clinical history in FY12, a significant milestone for the consolidated entity. Having the only total knee prostheses in the marketplace with that level of clinical success we believe our sales team will be able to leverage this outstanding achievement to drive further sales growth. In addition we continue to evaluate new product lines which will be earnings per share accretive from the outset. The focus on achieving this growth is matched by efforts in reduction of costs of manufacture and improvements in delivery efficiency.

**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 36 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 Anittel Group Limited (previously known as 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.
Other current directorships:	Executive Chairman of Anittel Group 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



## Advanced Surgical Design & Manufacture Limited

### Directors' report

30 June 2011

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. 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: John O'Meara  
Title: Non-Executive Director  
Qualifications: PCM  
Experience and expertise: Mr O'Meara is an energetic business leader with over 26 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. 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 Chairman of the Audit and Risk Committee  
Interests in shares: 300,000 ordinary shares  
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) 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 26 years' experience in company secretarial and general counsel roles.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

**Meetings of directors**

The number of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2011, and the number 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	12	12	2	2	4	4
Dr Gregory James Roger	12	12	2	2	4	4
John O'Meara	12	12	2	2	4	4
Walter Kmet	2	3	-	-	2	2
Michael Spooner	5	5	-	-	-	-

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
- E Additional information

**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, the company and consolidated entity requires a board and senior management team that have both the technical capability and relevant experience to execute the company and consolidated entity's business plan.

The consolidated entity's executive remuneration framework was developed initially as part of the process of the consolidated entity becoming a listed company on the ASX in December 2007 and is being more fully developed as economic conditions and the financial performance of the consolidated entity permits. 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 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 consolidated entity's earnings company and share price performance.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

The Nomination & Remuneration Committee is responsible for ensuring that there is gender parity in the remuneration levels of employees and believes this to be the case.

The remuneration structures are 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 consolidated entity, whilst ensuring its positioning for its longer term success.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

*Non-executive directors remuneration*

The aggregate remuneration that may be paid to non-executive directors is a maximum of \$500,000 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 sources 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 the consolidated entity performance, their remuneration does not have a variable performance related component.

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.

*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.

*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 consolidated entity'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 consolidated entity. In addition regard is had to information from publically available external remuneration sources to ensure senior executives' remuneration is competitive in the market place having regard to the size of the consolidated entity and the fiscal constraints of a growing company. Remuneration levels for the financial year ended 30 June 2011 were set having regards to the global financial crisis and its aftermath.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

*Consolidated entity performance and link to remuneration*

Performance linked remuneration is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. Refer to section E of the remuneration report for details of the earnings and total shareholders return, since listing on the Australian Securities Exchange ('ASX') in December 2007.

*Short-term incentive ('STI')*

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

If the consolidated entity exceeds a pre-determined Earnings Before Interest, Tax, Depreciation and Amortisation ('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 consolidated entity's objectives, with 50% allocated to personal objectives aligned to the overall objectives of the consolidated entity. The overall consolidated entity's objectives are considered on a financial year basis and are based on the consolidated entity'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 the consolidated entity. 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 consolidated entity'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 ('LTI')*

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 directors consider share options a key tool in attracting the required talented individuals to the management team while staying within the fiscal constraints of a growing company.

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 consolidated entity performance. The options will be structured with a view to minimising any 'short-termism' approach on the part of executives.

Dr Roger waived his entitlement to receive, subject to shareholder approval, a grant of options.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

No other options were granted to key management personnel because of the lack of clarity of 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 consolidated entity's and executives' perspective.

The consolidated entity's Securities Dealing Policy prohibits transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

**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

2011	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
Name	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Peter Kazacos	62,520	-	-	-	-	-	62,520
John O'Meara	20,000	-	-	-	-	-	20,000
Walter Kmet	13,333	-	-	-	-	-	13,333
<i>Executive Directors:</i>							
Dr Gregory James Roger	211,717	-	-	18,838	-	-	230,555
<i>Other Key Management Personnel:</i>							
Richard Ulrick	37,650	-	-	-	-	-	37,650
Tom Milicevic	190,510	-	-	16,992	-	7,200	214,702
Jari Hyvarinen	159,587	-	-	14,167	-	-	173,754
	<u>695,317</u>	<u>-</u>	<u>-</u>	<u>49,997</u>	<u>-</u>	<u>7,200</u>	<u>752,514</u>

No director's fees were paid to Michael Spooner. Consulting fees of \$175,000 were paid instead to an entity related to Michael Spooner.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

2010 Name	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
<i>Non-Executive Directors:</i>							
Peter Kazacos	62,520	-	-	-	-	-	62,520
John O'Meara	6,667	-	-	-	-	-	6,667
Walter Kmet	40,000	-	-	-	-	-	40,000
<i>Executive Directors:</i>							
Dr Gregory James Roger	167,263	-	14,240	15,538	4,078	-	201,119
<i>Other Key Management Personnel:</i>							
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
	<u>666,796</u>	<u>-</u>	<u>14,240</u>	<u>45,757</u>	<u>9,845</u>	<u>24,724</u>	<u>761,362</u>

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2011	2010	2011	2010	2011	2010
<i>Non-Executive Directors:</i>						
Peter Kazacos	100%	100%	- %	- %	- %	- %
John O'Meara	100%	100%	- %	- %	- %	- %
Walter Kmet	100%	100%	- %	- %	- %	- %
<i>Executive Directors:</i>						
Dr Gregory James Roger	100%	100%	- %	- %	- %	- %
<i>Other Key Management Personnel:</i>						
Richard Ulrick	100%	100%	- %	- %	- %	- %
Tom Milicevic	97%	89%	- %	- %	3%	11%
Jari Hyvarinen	100%	100%	- %	- %	- %	- %

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

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

Name	Cash bonus paid		Cash bonus forfeited	
	2011	2010	2011	2010
<i>Non-Executive Directors:</i>				
Dr Gregory James Roger	- %	- %	100%	100%
Richard Ulrick	- %	- %	100%	100%
Tom Milicevic	- %	- %	100%	100%
Jari Hyvarinen	- %	- %	100%	100%

**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 key management personnel are formalised in service agreements. Details of these agreements are as follows:

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 consolidated entity 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 the consolidated entity 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: Mr 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 consolidated entity 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 the consolidated entity 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: Mr 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 consolidated entity 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.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

***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 2011.

*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	\$0.360
1 July 2007	1 July 2007	5 December 2012	\$0.50	\$0.370
16 November 2007	16 November 2010	16 November 2013	\$0.60	\$0.370
26 March 2010	1 July 2011	30 June 2013	\$0.60	\$0.250

Options granted carry no dividend or voting rights.

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011 are set out below:

Name	Number of options granted during the year		Number of options vested during the year	
	2011	2010	2011	2010
Dr Gregory James Roger	-	250,000	-	-



**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

**E Additional information**

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 consolidated entity's performance and benefits for shareholders' wealth, the Nomination and Remuneration Committee has regard to the consolidated entity's earnings and any dividends paid together with share price performance since the company listed on the ASX.

The earnings of the consolidated entity for the four years to 30 June 2011 are summarised below:

	2008	2009	2010	2011
	\$'000	\$'000	\$'000	\$'000
Sales revenue	7,095	6,409	7,470	7,370
EBITDA	912	(700)	1,236	(1,743)

The factors that are considered to affect total shareholders return (TSR) are summarised below:

	2008	2009	2010	2011
Share price at financial year end (\$)	0.37	0.30	0.43	0.27
Total dividends declared (cents per share)	0.00	0.00	0.00	0.00

Notwithstanding the advances continued to be made by the consolidated entity during the year, the required EBITDA for the year ended 30 June 2011 was not achieved so that bonus payments for key management personnel have not been paid.

***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
26 March 2010	30 June 2013	\$0.60	20,000
			680,000

**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 2011.

### **Indemnity and insurance of officers**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, 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 \$22,798 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.

### **Indemnity and insurance of auditor**

The company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

### **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 26 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 26 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.

### **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.

### **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.

**Advanced Surgical Design & Manufacture Limited**  
**Directors' report**  
**30 June 2011**

**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.

**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, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



---

Peter Kazacos  
Director

31 August 2011  
Sydney

## Auditor's Independence Declaration

As lead auditor for the audit of Advanced Surgical Design and Manufacture Limited for the year ended 30 June 2011, 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  
31 August 2011

**Advanced Surgical Design & Manufacture Limited**  
**Financial report**  
**For the year ended 30 June 2011**

**Contents**

	Page
Financial report	
Statement of comprehensive income	18
Statement of financial position	19
Statement of changes in equity	20
Statement of cash flows	21
Notes to the financial statements	22
Directors' declaration	63
Independent auditor's report to the members of Advanced Surgical Design & Manufacture Limited	64

**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 31 August 2011. The directors have the power to amend and reissue the financial report.

**Advanced Surgical Design & Manufacture Limited**  
**Statement of comprehensive income**  
**For the year ended 30 June 2011**

	Note	Consolidated 2011 \$'000	2010 \$'000
<b>Revenue</b>	4	7,370	7,470
Other income		5	33
<b>Expenses</b>			
Cost of sales and purchases of consumables		(3,293)	(3,385)
Corporate and administration expenses		(3,153)	(2,094)
Quality and research and development expenses		(1,952)	(1,369)
Sales and marketing expense		(1,736)	(1,160)
Finance costs	5	<u>(230)</u>	<u>(132)</u>
<b>Loss before income tax expense</b>		(2,989)	(637)
Income tax expense	6	<u>(276)</u>	<u>(259)</u>
<b>Loss after income tax expense for the year attributable to the owners of Advanced Surgical Design &amp; Manufacture Limited</b>	22	(3,265)	(896)
<b>Other comprehensive income</b>			
Foreign currency translation		<u>80</u>	<u>(33)</u>
Other comprehensive income for the year, net of tax		<u>80</u>	<u>(33)</u>
<b>Total comprehensive income for the year attributable to the owners of Advanced Surgical Design &amp; Manufacture Limited</b>		<u><u>(3,185)</u></u>	<u><u>(929)</u></u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	36	(9.25)	(2.54)
Diluted earnings per share	36	(9.25)	(2.54)

*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 30 June 2011**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	16	723
Trade and other receivables	8	1,062	1,005
Inventories	9	2,868	2,834
Total current assets		<u>3,946</u>	<u>4,562</u>
<b>Non-current assets</b>			
Receivables	10	217	205
Property, plant and equipment	11	3,682	4,162
Intangibles	12	278	886
Deferred tax	13	462	798
Total non-current assets		<u>4,639</u>	<u>6,051</u>
<b>Total assets</b>		<u>8,585</u>	<u>10,613</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	1,200	1,013
Borrowings	15	651	906
Provisions	16	183	113
Total current liabilities		<u>2,034</u>	<u>2,032</u>
<b>Non-current liabilities</b>			
Borrowings	17	1,979	755
Provisions	19	325	341
Total non-current liabilities		<u>2,304</u>	<u>1,096</u>
<b>Total liabilities</b>		<u>4,338</u>	<u>3,128</u>
<b>Net assets</b>		<u>4,247</u>	<u>7,485</u>
<b>Equity</b>			
Contributed equity	20	8,855	8,915
Reserves	21	568	481
Accumulated losses	22	<u>(5,176)</u>	<u>(1,911)</u>
<b>Total equity</b>		<u>4,247</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 year ended 30 June 2011**

	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Consolidated</b>				
Balance at 1 July 2009	8,980	489	(1,015)	8,454
Other comprehensive income for the year, net of tax	-	(33)	-	(33)
Loss after income tax expense for the year	-	-	(896)	(896)
Total comprehensive income for the year	-	(33)	(896)	(929)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	25	-	25
Tax effect on transaction costs arising on share issue	(65)	-	-	(65)
Balance at 30 June 2010	<u>8,915</u>	<u>481</u>	<u>(1,911)</u>	<u>7,485</u>
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Consolidated</b>				
Balance at 1 July 2010	8,915	481	(1,911)	7,485
Other comprehensive income for the year, net of tax	-	80	-	80
Loss after income tax expense for the year	-	-	(3,265)	(3,265)
Total comprehensive income for the year	-	80	(3,265)	(3,185)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	7	-	7
Tax effect on transaction costs arising on share issue	(60)	-	-	(60)
Balance at 30 June 2011	<u>8,855</u>	<u>568</u>	<u>(5,176)</u>	<u>4,247</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 year ended 30 June 2011**

	Note	Consolidated	
		2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		7,939	8,329
Payments to suppliers and employees (inclusive of GST)		<u>(8,872)</u>	<u>(7,446)</u>
		(933)	883
Interest received		19	18
Interest and other finance costs paid		<u>(230)</u>	<u>(132)</u>
Net cash from/(used in) operating activities	34	<u>(1,144)</u>	<u>769</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	31	-	15
Payments for property, plant and equipment		(482)	(850)
Payments for intangibles	12	(50)	(114)
Proceeds from sale of property, plant and equipment		-	4
Net cash used in investing activities		<u>(532)</u>	<u>(945)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings - third party		1,859	204
Proceeds from borrowings - related party		570	-
Repayment of borrowings		(1,571)	(120)
Finance lease repayments		<u>(77)</u>	<u>(37)</u>
Net cash from financing activities		<u>781</u>	<u>47</u>
Net decrease in cash and cash equivalents		(895)	(129)
Cash and cash equivalents at the beginning of the financial year		<u>723</u>	<u>852</u>
Cash and cash equivalents at the end of the financial year	7	<u><u>(172)</u></u>	<u><u>723</u></u>

*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**  
**30 June 2011**

**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 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 2 Share-based Payment Transactions - amendments for Group Cash-settled Share-based Payment Transactions*

The consolidated entity has applied the amendments to AASB 2 from 1 July 2010. The amendments clarified the scope of AASB 2 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.

*Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments*

The consolidated entity has applied Interpretation 19 from 1 July 2010. The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualifies as consideration paid. The equity instruments issued are measured at their fair value, or if not reliably measured, at the fair value of the liability extinguished, with any gain or loss recognised in profit or loss.

*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' - classification of leases of land and buildings;

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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

*AASB 2009-10 Amendments to AASB 132 - Classification of Rights Issues*

The consolidated entity has applied AASB 2009-10 from 1 July 2010. The amendments clarified 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 amendment therefore provides relief to entities that issue rights in a currency other than their functional currency from treating the rights as derivatives with fair value changes recorded in profit or loss.

*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' and AASB 3 Business Combinations - 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 to when the rights acquired include entitlement to a 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.

**Going concern**

As at 30 June 2011, the consolidated entity had capital reserves of \$4,247,000 and cash and cash equivalents of \$16,000. The consolidated entity had a considerable decrease in operating cashflows and experienced negative cashflows during the financial year due to not meeting its budgeted growth targets, investment in the Peripheral Access Device ('PAD') through research and development expenditure and some one-off consulting fees. Despite the decline in cashflow, the consolidated entity continues to invest in its sales and marketing team to support its growth initiatives.

During the financial year ended 30 June 2011, the consolidated entity secured net \$781,000 of additional borrowings and an extension on its related party loan until December 2012. The consolidated entity also secured a line of credit from a related party for \$250,000 after the reporting date which will assist it with its growth expansion plans.

In a proactive response the consolidated entity implemented the following initiatives during the financial year ended 30 June 2011:

- (i) Internal expenditure reduction initiatives including reduction in headcount and overtime hours;
- (ii) Focus on sales and marketing impact to grow sales;
- (iii) Improved working capital via a tighter focus on the collection of debtors and more efficient scheduling of work; and
- (iv) Containment of spending on research and development activities.

The ability of the consolidated entity to continue as a going concern beyond August 2012 is dependent upon the consolidated entity being successful in achieving its growth targets of its Active Knee and its new product lines recently acquired.

As a result of the above matters, the directors are of the view that the consolidated entity will continue as a going concern and, therefore, will realise its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial report. The directors remain confident about the successful achievement of projected targets and therefore 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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

**Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by 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.

*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.

**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 30.

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Advanced Surgical Design & Manufacture Limited ('company' or 'parent entity') as at 30 June 2011 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.

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 an 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.

**Operating segments**

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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

**Foreign currency translation**

The financial report is presented in Australian dollars, which is Advanced Surgical Design & Manufacture Limited's functional and presentation currency.

*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**

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 collectability 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.

**Note 1. Significant accounting policies (continued)**

**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. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

**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.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable 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.

**Note 1. Significant accounting policies (continued)**

**Inventories**

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. 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. 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.

**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 data 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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

**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 is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected 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 dependent 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 lease's inception at the fair value of the leased property, or if lower, 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 are 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.



**Note 1. Significant accounting policies (continued)**

**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 intangible assets are 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 the 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 nil and 20 years.

**Research and development**

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

**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.

**Note 1. Significant accounting policies (continued)**

**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 the bank overdraft
- interest on short-term and long-term borrowings
- interest on finance leases

**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. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, 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 service leave*

The liability for long service 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.

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

*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 37.

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 to profit or loss.

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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

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.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

**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 Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

**Note 1. Significant accounting policies (continued)**

*AASB 2009-12 Amendments to Australian Accounting Standards*

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, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using 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. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 124 Related Party Disclosures (December 2009)*

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2010-4 Further 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 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarifies that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Statements'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*AASB 2010-5 Amendments to Australian Accounting Standards*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*IFRS 10 (AASB 10) Consolidated Financial Statements*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

*IFRS 12 (AASB 12) Disclosure of Interests in Other Entities*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated' and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures', Interpretation 12 'Service Concession Arrangements' and Interpretation 13 'Customer Loyalty Programmes'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made by the consolidated entity in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

*IFRS 13 (AASB 13) Fair Value Measurement*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets, but not liabilities. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

*IAS 27 (AASB 127) Separate Financial Statements (Revised)*

*IAS 28 (AASB 128) Investments in Associates and Joint Ventures (Reissued)*

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in IFRS 10, IFRS 11 and IFRS 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

*IAS 1 (AASB 101) Presentation of Financial Statements (Revised)*

This revised standard is applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss. The change provides clarity about the nature of items presented as other comprehensive income and their future impact. The adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies (continued)**

*AASB 1054 Australian Additional Disclosures*

This Standard is applicable to annual reporting periods beginning on or after 1 July 2011. The standard sets out the Australian-specific disclosures, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. They make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with International Financial Reporting Standards but without any intention to change requirements. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel (KMP). The adoption of these amendments from 1 July 2013 will remove the duplication of relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on 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.

*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.

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

*Estimation of useful lives of assets*

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

*Goodwill*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill 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 estimated future cash flows.

*Impairment of non-financial assets other than goodwill*

The consolidated entity assesses impairment of non-financial assets other than goodwill 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.

*Recovery of deferred tax assets*

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

*Long service leave provision*

As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Lease make good provision*

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset, if applicable, and provision.

**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 This is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The consolidated entity operates predominately in one geographical region being Australia.

*Major customers*

During the year ended 30 June 2011 approximately 66% (2010: 64%) of the consolidated entity's external revenue was derived from sales to two major hospital groups.



**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 4. Revenue**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Sales revenue</i>		
Sale of goods	7,195	6,027
Sale of intellectual property	-	1,280
	<u>7,195</u>	<u>7,307</u>
<i>Other revenue</i>		
Interest	19	18
Sub-lease rentals	156	145
	<u>175</u>	<u>163</u>
Revenue	<u><u>7,370</u></u>	<u><u>7,470</u></u>

**Note 5. Expenses**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	415	539
Fixtures and fittings	208	186
Leasehold improvements	49	28
Lease make good	60	60
Instrument sets	230	268
	<u>962</u>	<u>1,081</u>
Total depreciation	<u>962</u>	<u>1,081</u>
<i>Amortisation</i>		
Website	21	9
Patents and trademarks	52	34
	<u>73</u>	<u>43</u>
Total amortisation	<u>73</u>	<u>43</u>
Total depreciation and amortisation	<u><u>1,035</u></u>	<u><u>1,124</u></u>
<i>Impairment</i>		
Goodwill	585	-
Inventories	184	107
Trade receivables	122	-
	<u>891</u>	<u>107</u>
Total impairment	<u>891</u>	<u>107</u>

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 5. Expenses (continued)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Finance costs</i>		
Interest and finance charges paid/payable	<u>230</u>	<u>132</u>
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	<u>63</u>	<u>116</u>
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	<u>-</u>	<u>1</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>697</u>	<u>688</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>253</u>	<u>232</u>
<i>Share-based payments expense</i>		
Share-based payments expense	<u>7</u>	<u>25</u>
<i>Employee benefits expense</i>		
Employee benefits expense	<u>2,659</u>	<u>2,232</u>

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 6. Income tax expense**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Deferred tax	<u>276</u>	<u>259</u>
Aggregate income tax expense	<u><u>276</u></u>	<u><u>259</u></u>
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 13)	276	277
Decrease in deferred tax liabilities (note 18)	<u>-</u>	<u>(18)</u>
	<u><u>276</u></u>	<u><u>259</u></u>
<i>Numerical reconciliation of income tax expense to prima facie tax payable</i>		
Loss before income tax expense	(2,989)	(637)
Tax at the Australian tax rate of 30%	(897)	(191)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	175	-
Share-based payments	2	7
Concessional research and development expenditure treatment	(241)	(101)
Investment allowance	-	(28)
Sundry items	<u>(59)</u>	<u>(27)</u>
	(1,020)	(340)
Current year tax losses not recognised	897	278
Prior year tax losses previously recognised now not recognised	<u>399</u>	<u>321</u>
Income tax expense	<u><u>276</u></u>	<u><u>259</u></u>
<i>Amounts charged directly to equity</i>		
Deferred tax assets (note 13)	<u><u>60</u></u>	<u><u>65</u></u>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>6,317</u>	<u>1,995</u>
Potential tax benefit @ 30%	<u><u>1,895</u></u>	<u><u>599</u></u>

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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 7. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand	16	723

*Reconciliation to cash and cash equivalents at the end of the financial year*

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	16	723
Bank overdraft (note 15)	(188)	-
Balance as per statement of cash flows	(172)	723

**Note 8. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	1,019	959
Less: Provision for impairment of receivables	(122)	-
	897	959
Other receivables	1	5
Prepayments	164	41
	1,062	1,005

*Impairment of receivables*

The consolidated entity has recognised a provision \$122,000 (2010: \$nil) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2011.

The ageing of the impaired receivables recognised above are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 2 months overdue	47	-
3 to 4 months overdue	75	-
	122	-

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 8. Current assets - trade and other receivables (continued)**

Movements in the provision for impairment of receivables are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Additional provisions recognised	122	-

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$32,000 as at 30 June 2011 (\$304,000 as at 30 June 2010). The consolidated entity 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:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 2 months	17	281
3 to 4 months	15	23
	<u>32</u>	<u>304</u>

**Note 9. Current assets - inventories**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Raw materials - at cost	422	550
Work in progress - at cost	147	162
Finished goods - at lower of cost or net realisable value	2,299	2,122
	<u>2,868</u>	<u>2,834</u>

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to \$184,000 (2010: \$107,000). The expense has been included in 'cost of sales' in profit or loss.

**Note 10. Non-current assets - receivables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Other receivables	217	205

*Impaired receivables or receivables past due*

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

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 11. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and equipment - at cost	6,659	6,625
Less: Accumulated depreciation	<u>(5,173)</u>	<u>(4,758)</u>
	<u>1,486</u>	<u>1,867</u>
Fixtures and fittings - at cost	1,763	1,419
Less: Accumulated depreciation	<u>(902)</u>	<u>(694)</u>
	<u>861</u>	<u>725</u>
Leasehold improvements - at cost	279	279
Less: Accumulated depreciation	<u>(224)</u>	<u>(175)</u>
	<u>55</u>	<u>104</u>
Lease make good - at cost	294	288
Less: Accumulated depreciation	<u>(200)</u>	<u>(140)</u>
	<u>94</u>	<u>148</u>
Instrument sets - at cost	2,190	2,092
Less: Accumulated depreciation	<u>(1,004)</u>	<u>(774)</u>
	<u>1,186</u>	<u>1,318</u>
	<u><u>3,682</u></u>	<u><u>4,162</u></u>

*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 \$'000	Fixtures and fittings \$'000	Leasehold improvements \$'000	Lease make good \$'000	Instrument sets \$'000	Total \$'000
<b>Consolidated</b>						
Balance at 1 July 2009	2,368	595	132	203	1,151	4,449
Additions	42	316	-	5	492	855
Additions through business combinations (note 31)	1	-	-	-	-	1
Disposals	(5)	-	-	-	-	(5)
Transfers in/(out)	-	-	-	-	(57)	(57)
Depreciation expense	<u>(539)</u>	<u>(186)</u>	<u>(28)</u>	<u>(60)</u>	<u>(268)</u>	<u>(1,081)</u>
Balance at 30 June 2010	1,867	725	104	148	1,318	4,162
Additions	34	344	-	6	98	482
Depreciation expense	<u>(415)</u>	<u>(208)</u>	<u>(49)</u>	<u>(60)</u>	<u>(230)</u>	<u>(962)</u>
Balance at 30 June 2011	<u><u>1,486</u></u>	<u><u>861</u></u>	<u><u>55</u></u>	<u><u>94</u></u>	<u><u>1,186</u></u>	<u><u>3,682</u></u>

*Property, plant and equipment secured under finance leases*

Refer to note 28 for detailed information on property, plant and equipment secured under finance leases.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 12. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	585	585
Less: Impairment	(585)	-
	<u>-</u>	<u>585</u>
Website - at cost	121	121
Less: Accumulated amortisation	(74)	(53)
	<u>47</u>	<u>68</u>
Patents and trademarks - at cost	472	422
Less: Accumulated amortisation	(241)	(189)
	<u>231</u>	<u>233</u>
	<u><u>278</u></u>	<u><u>886</u></u>

*Reconciliations*

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

	Goodwill \$'000	Website \$'000	Patents and trademarks \$'000	Total \$'000
<b>Consolidated</b>				
Balance at 1 July 2009	-	22	208	230
Additions	-	55	59	114
Additions through business combinations (note 31)	585	-	-	585
Amortisation expense	-	(9)	(34)	(43)
	<u>585</u>	<u>68</u>	<u>233</u>	<u>886</u>
Balance at 30 June 2010	585	68	233	886
Additions	-	-	50	50
Impairment of assets	(585)	-	-	(585)
Amortisation expense	-	(21)	(52)	(73)
	<u>-</u>	<u>47</u>	<u>231</u>	<u>278</u>
Balance at 30 June 2011	<u><u>-</u></u>	<u><u>47</u></u>	<u><u>231</u></u>	<u><u>278</u></u>

*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.

Due to market conditions in the UK, management considered the recoverability of goodwill and determined that it was fully impaired. The impairment for the year is included in corporate and administration expenses in profit or loss.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 13. Non-current assets - deferred tax**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>The balance comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses	-	399
Other provisions and accruals	424	301
	<u>424</u>	<u>301</u>
	<u>424</u>	<u>700</u>
Amounts recognised in equity:		
Transaction costs on share issue	38	98
	<u>38</u>	<u>98</u>
	<u>38</u>	<u>98</u>
Deferred tax asset	<u>462</u>	<u>798</u>
<i>Movements:</i>		
Opening balance	798	1,140
Charged to profit or loss (note 6)	(276)	(277)
Charged to equity	(60)	(65)
	<u>(60)</u>	<u>(65)</u>
Closing balance	<u>462</u>	<u>798</u>

At 30 June 2010 tax losses were recognised to the extent that they were forecast to be utilised in 2011. The tax losses were subsequently reversed to profit or loss in the current financial year due to the financial results not meeting expectations.

**Note 14. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	445	274
Accrued expenses	403	393
Other payables	352	346
	<u>1,200</u>	<u>1,013</u>
	<u>1,200</u>	<u>1,013</u>

Refer to note 24 for detailed information on financial instruments.



**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 15. Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	188	-
Bank loans	399	207
Other loans	-	609
Lease liability	64	90
	<u>651</u>	<u>906</u>

Refer to note 17 for further information on assets pledged as security and financing arrangements and note 24 for detailed information on financial instruments.

**Note 16. Current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	<u>183</u>	<u>113</u>

**Note 17. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	1,363	658
Related party loans	570	-
Lease liability	46	97
	<u>1,979</u>	<u>755</u>

Refer to note 24 for detailed information on financial instruments.

*Total secured liabilities*

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

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	188	-
Bank loans	1,762	865
Lease liability	110	187
	<u>2,060</u>	<u>1,052</u>

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 17. Non-current liabilities - borrowings (continued)**

*Assets pledged as security*

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

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	16	723
Receivables	1,019	959
Plant and equipment	528	217
	<u>1,563</u>	<u>1,899</u>

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank overdraft	500	500
Bank loans	1,762	865
	<u>2,262</u>	<u>1,365</u>
Used at the reporting date		
Bank overdraft	188	-
Bank loans	1,762	865
	<u>1,950</u>	<u>865</u>
Unused at the reporting date		
Bank overdraft	312	500
Bank loans	-	-
	<u>312</u>	<u>500</u>

**Note 18. Non-current liabilities - deferred tax**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Movements:</i>		
Opening balance	-	18
Credited to profit or loss (note 6)	-	(18)
	<u>-</u>	<u>(18)</u>
Closing balance	<u>-</u>	<u>-</u>

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 19. Non-current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	31	53
Lease make good	294	288
	<u>325</u>	<u>341</u>

*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.

	Lease make good \$'000
<b>Consolidated - 2011</b>	
Carrying amount at the start of the year	288
Additional provisions recognised	<u>6</u>
Carrying amount at the end of the year	<u>294</u>

**Note 20. Equity - contributed**

	<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>35,298,996</u>	<u>35,298,996</u>	<u>8,855</u>	<u>8,915</u>

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>No of shares</b>	<b>Issue price</b>	<b>\$'000</b>
Balance	1 July 2009	35,298,996		8,980
Less: Tax effect on transaction costs arising on share issue	30 June 2010	<u>-</u>		<u>(65)</u>
Balance	30 June 2010	35,298,996		8,915
Less: Tax effect on transaction costs arising on share issue	30 June 2011	<u>-</u>		<u>(60)</u>
Balance	30 June 2011	<u>35,298,996</u>		<u>8,855</u>

*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.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 20. Equity - contributed (continued)**

*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 it 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 adjust the amount of dividends paid to shareholders, 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 2010 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 (including non-controlling interest) plus net debt.

The gearing ratio at the reporting date was as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Current liabilities - trade and other payables (note 14)	1,200	1,013
Current liabilities - borrowings (note 15)	651	906
Non-current liabilities - borrowings (note 17)	1,979	755
Total borrowings	<u>3,830</u>	<u>2,674</u>
Current assets - cash and cash equivalents (note 7)	(16)	(723)
Net debt	3,814	1,951
Total equity	<u>4,247</u>	<u>7,485</u>
Total capital	<u><u>8,061</u></u>	<u><u>9,436</u></u>
Gearing ratio	47%	21%

**Note 21. Equity - reserves**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	47	(33)
Share-based payments reserve	<u>521</u>	<u>514</u>
	<u><u>568</u></u>	<u><u>481</u></u>

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 21. Equity - reserves (continued)**

	Foreign currency \$'000	Share-based payments \$'000	Total \$'000
<b>Consolidated</b>			
Balance at 1 July 2009	(33)	489	456
Share-based payments	-	25	25
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2010	(33)	514	481
Foreign currency translation	80	-	80
Share-based payments	-	7	7
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2011	<u>47</u>	<u>521</u>	<u>568</u>

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

*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 22. Equity - accumulated losses**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Accumulated losses at the beginning of the financial year	(1,911)	(1,015)
Loss after income tax expense for the year	(3,265)	(896)
	<hr/>	<hr/>
Accumulated losses at the end of the financial year	<u>(5,176)</u>	<u>(1,911)</u>

**Note 23. Equity - dividends**

*Dividends*

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

*Franking credits*

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>320</u>	<u>320</u>

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

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 24. Financial instruments**

***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 undertakes 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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>Consolidated</b>				
Euros	90	202	57	180
Pound Sterling	-	10	-	6
Swiss Francs	-	-	16	8
US Dollars	26	10	143	18
	<u>116</u>	<u>222</u>	<u>216</u>	<u>212</u>

The consolidated entity had net liabilities denominated in foreign currencies of \$100,000 (assets \$116,000 less liabilities \$216,000) as at 30 June 2011 (2010: net current assets of \$10,000 (assets \$222,000 less liabilities \$212,000)). Based on this exposure, had the Australian Dollar weakened/strengthened by 10% (2010: 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 \$10,000 higher / lower (2010: \$1,000 lower / higher) and equity would have been \$10,00 higher / lower (2010: \$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 2011 was \$63,000 (2010: loss of \$116,000).

***Price risk***

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

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 24. Financial instruments (continued)**

*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 and other loans outstanding, totalling \$1,950,000 (2010: \$865,000), are principal and interest payment loans. The minimum principal repayments of \$399,000 (2010: \$816,000) are due during the year ending 30 June 2012 (2010: 30 June 2011) for these loans.

The consolidated entity is not exposed to any significant interest rate risk.

***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:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	312	500

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

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 24. Financial instruments (continued)**

*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.

<b>Consolidated - 2011</b>	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	445	-	-	-	445
Accrued expenses	-	403	-	-	-	403
Other payables	-	352	-	-	-	352
<i>Interest-bearing - variable</i>						
Bank overdraft	13.85	201	-	-	-	201
<i>Interest-bearing - fixed rate</i>						
Bank loans	9.94	507	507	1,090	-	2,104
Other loans	12.00	68	604	-	-	672
Lease liability	9.00	67	63	-	-	130
Total non-derivatives		<u>2,043</u>	<u>1,174</u>	<u>1,090</u>	<u>-</u>	<u>4,307</u>
<b>Consolidated - 2010</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	274	-	-	-	274
Accrued expenses	-	393	-	-	-	393
Other payables	-	346	-	-	-	346
<i>Interest-bearing - fixed rate</i>						
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		<u>2,030</u>	<u>393</u>	<u>446</u>	<u>-</u>	<u>2,869</u>

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

**Fair value of financial instruments**

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.



**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 25. 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
John O'Meara	Non-Executive Director
Walter Kmet (resigned on 5 November 2010)	Former Non-Executive Director
Michael Spooner (appointed on 13 September 2010 and resigned on 16 February 2011)	Former Non-Executive Director

*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:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	695,317	681,036
Post-employment benefits	49,997	45,757
Termination benefits	-	9,845
Share-based payments	7,200	24,724
	<u>752,514</u>	<u>761,362</u>

*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:

<b>2011</b>	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Kazacos	715,810	-	-	-	715,810
Dr Gregory James Roger	7,554,690	-	-	-	7,554,690
John O'Meara	300,000	-	-	-	300,000
Walter Kmet *	98,278	-	-	(98,278)	-
Richard Ulrick	177,453	-	20,000	-	197,453
Tom Milicevic	66,335	-	1,666	-	68,001
Jari Hyvarinen	8,668	-	-	-	8,668
	<u>8,921,234</u>	<u>-</u>	<u>21,666</u>	<u>(98,278)</u>	<u>8,844,622</u>

\* Disposals/other- represents this member no longer being a key management personnel, not necessarily physical disposal of their shareholding

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 25. Key management personnel disclosures (continued)**

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<b>2010</b>					
<i>Ordinary shares</i>					
Peter Kazacos	715,810	-	-	-	715,810
Dr Gregory James Roger *	7,954,690	-	-	(400,000)	7,554,690
John O'Meara **	-	-	-	300,000	300,000
Walter Kmet	98,278	-	-	-	98,278
Richard Ulrick	85,334	-	92,119	-	177,453
Tom Milicevic	50,001	-	16,334	-	66,335
Jari Hyvarinen	8,668	-	-	-	8,668
	<u>8,912,781</u>	<u>-</u>	<u>108,453</u>	<u>(100,000)</u>	<u>8,921,234</u>

\* Disposals/other- represents 400,000 shares transferred as a result of a Court Order

\*\* Disposals/other- represents existing holding when this member became a key management personnel

*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:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2011</b>					
<i>Options over ordinary shares</i>					
Peter Kazacos	106,000	-	-	-	106,000
Dr Gregory James Roger	254,000	-	-	-	254,000
Walter Kmet *	100,000	-	-	(100,000)	-
Tom Milicevic	200,000	-	-	-	200,000
Jari Hyvarinen	99,000	-	-	(99,000)	-
	<u>759,000</u>	<u>-</u>	<u>-</u>	<u>(199,000)</u>	<u>560,000</u>

\* Expired/forfeited/other- represents this member no longer being a key management personnel, not necessarily physical disposal of their options over ordinary shares.

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2010</b>					
<i>Options over ordinary shares</i>					
Peter Kazacos	106,000	-	-	-	106,000
Dr 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
	<u>759,000</u>	<u>250,000</u>	<u>-</u>	<u>(250,000)</u>	<u>759,000</u>

*Related party transactions*

Related party transactions are set out in note 29.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 26. 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:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial report	<u>122,650</u>	<u>96,000</u>
<i>Other services - PricewaterhouseCoopers</i>		
Tax compliance services	20,680	21,308
Other assurance services	<u>-</u>	<u>13,750</u>
	<u>20,680</u>	<u>35,058</u>
	<u><u>143,330</u></u>	<u><u>131,058</u></u>

**Note 27. Contingent liabilities**

The consolidated entity had no contingent liabilities at 30 June 2011 and 30 June 2010.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 28. Commitments for expenditure**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	722	707
One to five years	496	1,225
	<u>1,218</u>	<u>1,932</u>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	67	105
One to five years	63	114
	<u>130</u>	<u>219</u>
Total commitment	130	219
Less: Future finance charges	<u>(20)</u>	<u>(32)</u>
Net commitment recognised as liabilities	<u>110</u>	<u>187</u>
Representing:		
Lease liability - current (note 15)	64	90
Lease liability - non-current (note 17)	46	97
	<u>110</u>	<u>187</u>

The future minimum non-cancellable sub-lease operating lease payments expected to be received by the consolidated entity is \$129,000 (2010: \$100,000).

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 \$129,000 (2010: \$217,000) 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 29. Related party transactions**

*Parent entity*

Advanced Surgical Design & Manufacture Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 32.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 25 and the remuneration report in the directors' report.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 29. Related party transactions (continued)**

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Payment for goods and services:		
Purchases of computer hardware, software and installation from Anittel Group Limited (shareholder and director related entity of Peter Kazacos)	-	27,139
Fee for maintenance and support services from Anittel Group Limited (shareholder and director related entity of Peter Kazacos)	70,893	42,000
Payment for strategic review to an entity related to Michael Spooner	175,000	-
Fees paid to Law Corporation (director related entity of Peter Kazacos)	6,845	-
Payment for other expenses:		
Interest paid to parties related to Tom Milicevic	5,622	-

*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*

The following balances are outstanding at the reporting date in relation to loans with related parties:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Non-current borrowings:		
Loan with parties related to Tom Milicevic	570,020	-

*Terms and conditions*

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

**Note 30. Parent entity information**

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

*Statement of comprehensive income*

	<b>Parent</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax	(2,409)	(830)
Total comprehensive income	(2,409)	(830)

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 30. Parent entity information (continued)**

*Statement of financial position*

	<b>Parent</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	4,740	4,444
Total assets	9,378	9,909
Total current liabilities	1,952	1,229
Total liabilities	4,256	2,325
Equity		
Contributed equity	8,855	8,915
Reserves	521	514
Accumulated losses	(4,254)	(1,845)
Total equity	5,122	7,584

*Contingent liabilities*

The parent entity had no contingent liabilities at 30 June 2011 and 30 June 2010.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for the purchase of property, plant and equipment at 30 June 2011 and 30 June 2010.

*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:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 31. Business combinations**

*Advanced Surgical Design & Manufacture (UK) Limited (comparative period)*

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 were final at 30 June 2010.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 31. Business combinations (continued)**

Details of the acquisition are as follows:

	<b>Acquiree's carrying amount \$'000</b>	<b>Fair value \$'000</b>
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)
	<u>(445)</u>	<u>(568)</u>
Net liabilities acquired		585
Goodwill		
Acquisition-date fair value of the total consideration transferred		<u>17</u>
Representing:		
Cash paid or payable to vendor		<u>17</u>
		<u>17</u>
	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	-	17
Less: cash equivalents	-	(32)
	<u>-</u>	<u>(15)</u>
Net cash received	<u>-</u>	<u>(15)</u>

**Note 32. 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:

<b>Name of entity</b>	<b>Country of incorporation</b>	<b>Equity holding</b>	
		<b>2011 %</b>	<b>2010 %</b>
ASDM Holdings Pty Limited	Australia	100.00	100.00
Advanced Surgical Design & Manufacture (UK) Limited	United Kingdom	100.00	100.00

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 33. Events occurring after the reporting date**

On 25 August 2011 the consolidated entity secured a line of credit from a related party for \$250,000 which will assist it with its growth expansion plans.

On 25 August 2011 the consolidated entity extended the maturity on its related party loan until December 2012 (noted the loan will be repaid by the consolidated entity between December 2012 and June 2013, in accordance with the terms of the loan).

No other matter or circumstance has arisen since 30 June 2011 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 34. Reconciliation of loss after income tax to net cash from/(used in) operating activities**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax expense for the year	(3,265)	(896)
Adjustments for:		
Depreciation and amortisation	1,035	1,124
Impairment of intangibles	585	-
Net loss on disposal of non-current assets	-	1
Share-based payments	7	25
Foreign exchange differences	80	(33)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	54	318
(Increase)/decrease in inventories	(34)	273
Decrease in deferred tax assets	276	277
(Increase)/decrease in prepayments	(123)	18
Increase/(decrease) in trade and other payables	177	(342)
Decrease in deferred tax liabilities	-	(18)
Increase in other provisions	64	22
	<u>64</u>	<u>22</u>
Net cash from/(used in) operating activities	<u>(1,144)</u>	<u>769</u>

**Note 35. Non-cash investing and financing activities**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Leasehold improvements - lease make good	<u>-</u>	<u>5</u>



**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 36. Earnings per share**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	<u>(3,265)</u>	<u>(896)</u>
	<b>Number</b>	<b>Number</b>
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>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(9.25)	(2.54)
Diluted earnings per share	(9.25)	(2.54)

Options granted to employees under the Employee Option Plan for year ended 30 June 2011 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 37. Share-based payments**

The consolidated entity 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 be 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.

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.

There were no options issued during the year.

**Advanced Surgical Design & Manufacture Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 37. Share-based payments (continued)**

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

**2011**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	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	636,000	-	-	(636,000)	-
26/03/10	30/06/13	\$0.60	28,000	-	-	(8,000)	20,000
			<u>1,324,000</u>	<u>-</u>	<u>-</u>	<u>(644,000)</u>	<u>680,000</u>

**2010**

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	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
			<u>1,395,000</u>	<u>280,000</u>	<u>-</u>	<u>(351,000)</u>	<u>1,324,000</u>

\* At the reporting date 660,000 (2010: 460,000) options were fully vested.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.57 years (2010: 1.82 years).

**Advanced Surgical Design & Manufacture Limited**  
**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 2011 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

31 August 2011  
Sydney

## 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 statement of financial position as at 30 June 2011, 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 Advanced Surgical Design and Manufacture 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

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

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

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



## Independent auditor's report to the members of Advanced Surgical Design and Manufacture Limited (continued)

### *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 2011 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 6 to 13 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Manoj Santiago

Partner

Sydney

31 August 2011