Advanced Surgical Design & Manufacture Limited

ABN 71 066 281 132

Annual Report - 30 June 2014

Directors	Peter Kazacos B.E, B.Sc John O'Meara Peter Welsh
Company secretary	Richard Ulrick BA, LLB, Dip Fin Mgt, FGIA, CPA
Notice of annual general meeting	The details of the annual general meeting of Advanced Surgical Design & Manufacture Limited are: Unit 2 12 Frederick Street St Leonards, NSW 2065 Wednesday 26 November 2014 at 10:00 am (AEST)
Registered office	Unit 2 12 Frederick Street St Leonards, NSW 2065 Head office telephone: 02 9439 4448
Share register	Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Shareholders enquiries: 1300 554 474
Auditor	PwC Darling Park Tower 2 201 Sussex 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	www.asdm.com.au

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 at the end of, or during, the year ended 30 June 2014.

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
John O'Meara
Peter Welsh

Principal activities
During the financial year the principal continuing activities of the consolidated entity consisted of the sale, manufacture and design of surgical implants. This remained unchanged from the previous year.

Dividends
There were no dividends paid, recommended 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 $64,000 (30 June 2013: $571,000).

Revenue
Total revenue for the year ended 30 June 2014 ("FY14") was $8.0m, representing an increase of 11% from the 2013 financial year ("FY13").

This growth was a mix across all product categories driven by our emphasis on education and training. During the year we undertook a number of cadaver labs which exposes physicians to our products and provided practical experience and user experiences converting to increased users and procedures.

Net profit from ordinary activities
The consolidated entity's earnings before interest, tax and depreciation and amortisation ("EBITDA") in FY14 was a profit of $0.7m compared to profit of $0.8m in FY13.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific non-cash and significant items.

The following table summarises key reconciling items between statutory profit after tax attributable to the shareholders of Advanced Surgical Design & Manufacture Limited and EBITDA.

	Consolidated	
	2014 $'000	2013 $'000
EBITDA	704	788
Less: Depreciation and amortisation	(783)	(1,013)
Less: Finance cost	(228)	(270)
Add: Interest income	6	7
Loss after income tax expense from continuing operations	(301)	(488)
Profit/(loss) after income tax expense from discontinued operations	237	(83)
Loss after income tax	(64)	(571)

FY14's continued focus on streamlining its manufacturing processes led to stronger margins particularly in the locally manufactured products. The company continues to seek improvements in manufacturing methods to drive down costs and improve efficiencies and yield for stronger margin into the future.

Corporate and administration expenses have increased by $0.2m represented by consultants relating to Research & Development ('R&D') tax refund $0.1m and reinstatement of full year Directors fees $0.1m.

ASDM's competitive advantage is local capability in design and manufacturing management. This provides for a responsive and dynamic organisation. During FY14, this development and continued alignment of our R&D to support our orthopaedic products and customers resulted in an increase in expenses of $0.2m to $1.4m (30 June 2013: $1.2m).

ASDM is advancing into the next phase of our development. Over the past 12-18 months, the company has been working closely with local innovators and surgeons to develop the next iteration of the Active Total Knee instrumentation. This development supports the Active Knee's long and successful clinical history with a new approach to surgical procedures that will pave the way to wider market segment opportunities.

During 2014, ASDM has partnered with the University of Sydney in the licensing of an exciting new technology in the ceramic bone scaffold area. This novel and breakthrough technology not only emphasises our focus on orthopaedics but also on industry collaboration in general.

Net loss after tax was $0.1m (30 June 2013: $0.6m). This result is after the expensing of all research and development related expenses.

Cash position
The cash balance at 30 June 2014 was $0.03m, with headroom under the debtors financing facility from Scottish Pacific which will enable growth and security in coming periods.

Outlook
In 2014-2015, ASDM will be rolling out a new corporate brand identity that will underpin our commitment to our focus on opportunities in the future. Additionally, we will continue to concentrate on surgeon education and training through specialised cadaveric lab experiences that provide the fundamentals for the most effective and efficient patient outcomes.

ASDM is committed to developing a highly trained and skilled medical device workforce that collaborates with our partners to deliver innovation and patient focused outcomes.

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
ASDM currently holds the distribution rights for Australia and New Zealand for products manufactured by Small Bone Innovation Inc. with this contract due to expire on 31 December 2014. Small Bone Innovations, Inc announced on 30 June 2014 that they had signed a definitive agreement to sell all their assets to Stryker Corporation with the transaction close expected by the end of the September 2014 quarter. It is Stryker's intention to represent the product range directly in Australia and as such the contract will not extend beyond the expiry date.

On 26 September 2014, ASDM announced a Fully Underwritten Non-Renounceable pro rata Rights Issue. The Rights Issue, to raise approximately $1.0m, will be made to Eligible Shareholders at an issue price of $0.05 per share on the basis of 23 New Share for every 50 Shares held on the Record Date (7.00 pm, day, 7 October 2014). The Rights Issue is fully underwritten by KAZ Capital Pty Ltd, a Director related entity of ASDM.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Management plans to focus on the core competencies of the business in implant manufacture through driving efficiency programs to improve yield and effectiveness of the operating activities. In addition, the company will continue to harness our project delivery capabilities in development of Research and development (R & D) projects around the implant hardware and synthetic bone scaffold segments.

Management are also tasked with the objective of seeking additional revenue streams with new products either internally generated or externally sourced to balance our portfolio of product offerings and provide continued revenue growth.

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:	Peter has over 39 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, representing a major strategic milestone in the transformation and convergence of the IT&T industry. Prior to founding KAZ and Anittel, Peter held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Peter 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 (ASX: AYG)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	715,810 ordinary shares
Interests in options:	106,000 options over ordinary shares

Name:	John O'Meara
Title:	Non-Executive Director
Experience and expertise:	John is an energetic business leader with over 29 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 (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

Name:	Peter Welsh
Title:	Executive Director and Managing Director
Experience and expertise:	Peter has 45 years' experience in the medical device and health care industry. The last 30 years directly involved with orthopaedics. He was the first NSW distributor for Richards Medical Company, now part of Smith and Nephew, selling orthopaedic implants and arthroscopy products. He also set up Knee Developments Australia ('KDA'). This company was the manufacturer and worldwide distributor for anterior cruciate ligament ('ACL') products. KDA became the market leader in ACL implants and instruments with sales in many countries around the world. It was sold to Dyonics, a subsidiary of Smith and Nephew.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	7,123,132 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, FGIA, 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 29 years' experience in company secretarial and general counsel roles.

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2014, 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	10	10	3	3	4	4
John O'Meara	9	10	2	3	3	4
Peter Welsh	10	10	3	3	4	4

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

Remuneration report (audited)
The remuneration report, which has been audited, outlines the director and other key management personnel ('KMP') arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

As a medical device sales, manufacturing, design and distribution 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's and consolidated entity's business plan.

The consolidated entity's KMP 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 may be 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, retain key employees, 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 KMP remuneration with performance, transparency and capital management;
- The capability and experience of the KMP;
- The ability of KMP to control performance; and
- The consolidated entity's earnings and company share price performance.

Remuneration Committee

The Nomination and 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 intended 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.

Remuneration Structure

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 are intended to 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 base remuneration has not changed since 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.

Executive remuneration
The consolidated entity aims to reward KMP with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The KMP remuneration and reward framework has four components:
● base pay and non-monetary benefits;
● short-term performance incentives;
● share-based payments; and
● other remuneration such as superannuation and long service leave.

The combination of these comprises the KMP's total remuneration.

Fixed remuneration
Fixed remuneration consists of base remuneration (which is calculated on a total cost basis including employer contributions to superannuation funds, except the CEO's which excludes superannuation). 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. The proposal for CEO excludes the superannuation.

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 KMP' remuneration is competitive in the market place having regard to the size of the consolidated entity and the fiscal constraints of a growing company.

Consolidated entity performance and link to remuneration
Performance linked remuneration is designed to reward KMP for meeting or exceeding their financial and personal objectives. Refer to the 'Additional information' section of the remuneration report for details of the earnings and total shareholders return, from 1 July 2010.

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 Nomination and Remuneration Committee is available to KMP 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.

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 KMP 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 approximates 20% of total remuneration.

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 is intended to be provided to KMP other than non-executive directors as ordinary shares of the company.

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

Accordingly, where shares are issued, they are generally conditional upon the individual achieving certain performance hurdles.

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.

Use of remuneration consultants
During the financial year ended 30 June 2014, the company and consolidated entity did not engage the use of remuneration consultants.

Voting and comments made at the company's 2013 Annual General Meeting ('AGM')
At the last AGM 98% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2013. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration
Details of the remuneration of the directors and other KMP of Advanced Surgical Design & Manufacture Limited are set out in the following tables.

The KMP of the consolidated entity consisted of the directors of Advanced Surgical Design & Manufacture Limited and the following persons:
- Richard Ulrick - Company Secretary
- Tom Milicevic - Chief Executive Officer and Chief Financial Officer

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2014	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Peter Kazacos (Chairman)*	62,500	-	-	-	-	-	62,500
John O’Meara	20,000	-	-	-	-	-	20,000
Executive Directors:							
Peter Welsh	20,000	-	-	-	-	-	20,000
Other Key Management Personnel:							
Richard Ulrick	58,800	-	-	-	-	-	58,800
Tom Milicevic *	241,930	10,000	-	24,026	7,568	10,000	293,524
	403,230	10,000	-	24,026	7,568	10,000	454,824

* $10,000 relates to a discretionary bonus for the financial year ended 30 June 2013.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2013	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Peter Kazacos (Chairman)*	15,630	-	-	-	-	-	15,630
John O'Meara *	5,000	-	-	-	-	-	5,000
Executive Directors:							
Peter Welsh *	5,000	-	-	-	-	-	5,000
Other Key Management Personnel:							
Richard Ulrick	58,050	-	-	-	-	-	58,050
Tom Milicevic	202,609	-	-	18,235	9,801	10,000	240,645
	286,289	-	-	18,235	9,801	10,000	324,325

* The directors opted to resume receiving their entitlement of fees from 1 April 2013.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2014	2013	2014	2013	2014	2013
Non-Executive Directors:						
Peter Kazacos	100%	100%	-%	-%	-%	-%
John O'Meara	100%	100%	-%	-%	-%	-%
Executive Directors:						
Peter Welsh	100%	100%	-%	-%	-%	-%
Other Key Management Personnel:						
Richard Ulrick	100%	100%	-%	-%	-%	-%
Tom Milicevic	94%	96%	3%	-%	3%	4%

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 (other than directors and company secretary) are formalised in service agreements. Details of these agreements are as follows:

Name:	Tom Milicevic
Title:	Chief Executive Officer and Chief Financial Officer
Agreement commenced:	15 October 2007
Details:	Currently on CFO contract. Contract of employment as CEO is being finalised by the Board. Base salary for the year ending 30 June 2014 of $250,000 plus superannuation, to be reviewed annually by the Nomination and Remuneration Committee. 3 month termination notice by either party.

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

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 2014.

Options
There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2014.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2014.

Additional information

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

The earnings of the consolidated entity for the five years to 30 June 2014 are summarised below:

	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000
Sales revenue	7,470	7,370	8,112	7,175	7,972
EBITDA	1,236	(1,743)	1,431	788	704

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

	2010	2011	2012	2013	2014
Share price at financial year end ($)	0.43	0.27	0.15	0.11	0.06

Additional disclosures relating to key management personnel

In accordance with Class Order 14/632, issued by the Australian Securities and Investments Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosure relates only to equity instruments in the company or its subsidiaries.

Shareholding
The number of shares in the company 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	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Peter Kazacos	715,810	-	-	-	715,810
John O'Meara	300,000	-	-	-	300,000
Peter Welsh	7,123,132	-	-	-	7,123,132
Richard Ulrick	197,453	-	-	-	197,453
Tom Milicevic	371,335	-	-	-	371,335
	8,707,730	-	-	-	8,707,730

Option holding
The number of options over ordinary shares in the company 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
Options over ordinary shares					
Tom Milicevic	200,000	-	-	(200,000)	-
	200,000	-	-	(200,000)	-

This concludes the remuneration report, which has been audited.

Shares under option
There were no unissued ordinary shares of Advanced Surgical Design & Manufacture Limited under option outstanding at the date of this report.

Shares issued on the exercise of options
There were no ordinary shares of Advanced Surgical Design & Manufacture Limited issued on the exercise of options during the year ended 30 June 2014 and up to the date of this report.

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 $25,337 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 end of 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 28 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 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 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 PwC
There are no officers of the company who are former audit partners of PwC.

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

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

Auditor
PwC 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

26 September 2014
Sydney

Auditor’s Independence Declaration

As lead auditor for the audit of Advanced Surgical Design & Manufacture Limited for the year ended 30 June 2014, 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 & Manufacture Limited and the entities it controlled during the period.

SPrakash

Sumanth Prakash
Partner
PricewaterhouseCoopers

Sydney
26 September 2014

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

The company has endorsed the second edition of the Corporate Governance Principles and Recommendations with 2010 Amendments released by the ASX Corporate Governance Council ('ASX Guidelines') and seeks to follow them to the extent that it is practicable having regard to the size and nature of its operations. All of the Recommendations that applied for the financial year ended 30 June 2014 have been followed with the exception that the requirement of Recommendation 4.2 for an audit committee to have at least three members and consist only of non-executive directors has not been followed. The committee consists of all three directors and only two of them are non-executive. This had been considered appropriate having regard to the size of the company's operations.

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

The Company will assess its corporate governance framework and practices against the 3rd edition of the ASX Recommendations for the purposes of the financial year ending 30 June 2015.

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

The Board of Directors (the 'Board')

Board composition
The company's constitution provides that the number of directors is to be determined by the Board but must be no less than 3 and no more than 10, with a broad range of expertise.

The company currently has three directors: two non-executive directors, Peter Kazacos, the Chairman of the Board and John O'Meara in addition to one executive director, Peter Welsh, the Managing Director. The experience and tenure of the directors are set out in the Directors' Report. Messrs Kazacos and O'Meara are considered independent by the Board. Consequently a majority of the Board comprises independent directors and the roles of chief executive officer and chair are performed by different people as required by good practice.

Board members are committed to spending sufficient time to enable them to carry out their duties as directors of the company; any candidate will confirm that they have the necessary time to devote to their Board position prior to appointment.

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

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

The Board has delegated responsibility for the day to day operation and administration of the company to the Chief Executive Officer. Responsibilities are delineated by formal authority delegations.

Directors' independence
In accordance with the ASX Guidelines, an independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

When determining the independent status of a director the Board considers whether the director:

1. is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;

2. is employed, or has previously been employed in an executive capacity by the company or consolidated entity, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is a material supplier or customer of the company or consolidated entity, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
5. has a material contractual relationship with the company or consolidated entity other than as a director.

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

Director induction and education
The company has, due to the Board's size, an informal induction process. New directors are fully briefed about the nature of the business, current issues, the corporate strategy and the expectations of the company concerning performance of directors.

Directors receive a formal letter of appointment setting out the key terms and conditions relevant to that appointment. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

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

Details of director-related entity transactions with the company are set out in the notes to the financial statements.

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

Corporate reporting
The Chief Executive Officer and the Chief Financial Officer give an annual written declaration to the Board that in their opinion the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001, the company's financial statements and the notes to those statements for the financial year comply with accounting standards and present a true and fair view of the company's financial condition and operational results. He has confirmed in writing to the Board that this declaration in relation to the financial year ended 30 June 2014 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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

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

The Board currently holds approximately 10 scheduled meetings each year, in addition to strategy and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise. Details of the number of meetings held by the Board, together with the number of meetings attended by each director are disclosed in the 'Meeting of directors' section within the Directors' Report.

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

Nomination and Remuneration Committee

Composition
The Nomination and Remuneration Committee comprises the independent Chairman (Peter Kazacos), an independent non-executive director, John O'Meara, and Managing Director (Peter Welsh). Each member has the expertise to enable the committee to effectively discharge its mandate. Details of each director's experience and background are outlined in the 'Information on directors' section within the Directors' Report.

Meetings and reporting
The Nomination and Remuneration Committee meets as and when required. Details of attendance at committee meetings are set out in the 'Information on directors' section within the Directors' Report. All committee minutes are tabled at Board meetings for review.

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

The Committee is also responsible for the regular review of, and reporting to the Board about, the application of the company's Diversity Policy including considering the proportion of women at all levels of the company.

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

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

New directors
The individual directors and the Board as a whole recognise the importance for the Board to have the skills, knowledge, experience and diversity of background required to effectively steer the company over time in response to market developments, opportunities and challenges. The Board recognises certain core skills that are required for the Board to ensure effective stewardship of the company. These include business and strategic expertise, experience with financial markets, industry knowledge, accounting and finance skills, project management experience and personal ethics, attributes and skills.

In view of the expected growth of the company the Board maintains an ongoing process to ensure its composition is appropriate.

Consequently, the Board through its Nomination and Remuneration Committee, bearing in mind the fiscal constraints facing the company, may seek to identify a suitable candidate who is available for appointment as an additional director.

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

Executive performance assessment
The Board, through the Nomination and Remuneration Committee, has established performance criteria for the Chief Executive Officer ('CEO') and conducts a performance review of the CEO at least annually. The Chief Executive Officer conducts an annual review of performance of senior executives and reports on their performance to the Committee. The results are discussed at a Board meeting with the outcome determining the payment of bonuses and vesting of any relevant options granted under the Employee Share Option Plan. The performance appraisal includes assessment of the respective executive's performance against key performance objectives set out at the beginning of each financial year.

Further details on the performance review process that took place for the financial year ended 30 June 2014 for the Chief Executive Officer and senior executives is discussed in the 'Remuneration Report' which forms part of the Directors' Report.

Remuneration
Details of the remuneration of executives and directors and the company's remuneration objectives and policies are set out in the Remuneration Report section of the Directors' Report.

Audit and Risk Committee

The role of the Audit and Risk Committee is set out in a formal charter approved by the Board. This charter is available on the company website under 'Corporate Governance' along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

Composition, meetings and reporting
The Audit and Risk Committee comprises John O'Meara and Peter Kazacos who are non-executive independent directors and Peter Welsh. The committee chairman is John O'Meara who is not the Chairman of the Board. Each member has the expertise to enable the committee to effectively discharge its mandate. Details of each director's experience and background are outlined in the 'Information of directors' section in the Directors' Report.

The Audit and Risk Committee meets as required to consider the company's annual budget and strategic plan review, half-year financial results, full-year financial results and risk management process.

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

All committee minutes are tabled at Board meetings for review.

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

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

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

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

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

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

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

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

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

Diversity Policy
The Board recognises the value and importance of diversity, including with respect to gender, ethnicity, geographical location, personal attributes and age. The company has established a Diversity Policy complying with the ASX Guidelines, a copy of which is available on the company website under 'Corporate Governance'.

At the beginning of the financial year approximately half of the employees of the company were women and a similar proportion of executives were also women. By year's end the proportion of women employees in the company and in senior executive positions remained the same. Accordingly, its objective for the year of maintaining the existing proportion (approximately half women) of gender balance within the organisation and at senior executive level other than at Board level has been achieved.

There are currently no women on the Board but the process to identify an appropriate candidate for appointment to the Board is in part to provide an opportunity for a suitably qualified woman to be appointed. There is no gender disparity in the level of remuneration paid. The Board considers that its existing policies are appropriate at this stage in the company's development and that any increase in the proportion of women at all levels of the work force is dependent upon the extent to which vacancies occur in the existing work force and any change in the size of the work force. The gender balance will continue to be monitored with a view to maintaining the existing proportions and reassessing as circumstances warrant. This forms a KPI for the Board, Managing Director, Chief Executive Officer and senior executives.

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

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

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

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

The company's Shareholder Communication Policy is available on its website under 'Corporate Governance'.

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

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

Contents

General information

The financial statements cover Advanced Surgical Design & Manufacture Limited as a consolidated entity consisting of Advanced Surgical Design & Manufacture Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Advanced Surgical Design & Manufacture Limited's functional and presentation currency.

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 statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 September 2014. The directors have the power to amend and reissue the financial statements.

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Revenue from continuing operations	4	7,972	7,175
Other income	5	817	668
Expenses			
Cost of sales and purchases of consumables		(3,259)	(3,312)
Corporate and administration expenses		(2,253)	(2,036)
Quality and research and development expenses		(1,393)	(1,146)
Sales and marketing expenses		(1,957)	(1,567)
Finance costs	6	(228)	(270)
Loss before income tax expense from continuing operations		(301)	(488)
Income tax expense	7	-	-
Loss after income tax expense from continuing operations		(301)	(488)
Profit/(loss) after income tax (expense)/benefit from discontinued operations	8	237	(83)
Loss after income tax expense for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited	24	(64)	(571)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		-	(45)
Other comprehensive income for the year, net of tax		-	(45)
Total comprehensive income for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited		(64)	(616)
Total comprehensive income for the year is attributable to:			
Continuing operations		(301)	(533)
Discontinuing operations		237	(83)
		(64)	(616)
		Cents	**Cents**
Earnings per share for loss from continuing operations attributable to the owners of Advanced Surgical Design & Manufacture Limited			
Basic earnings per share	36	(0.69)	(1.27)
Diluted earnings per share	36	(0.69)	(1.27)
Earnings per share for profit/(loss) from discontinued operations attributable to the owners of Advanced Surgical Design & Manufacture Limited			
Basic earnings per share	36	0.54	(0.22)
Diluted earnings per share	36	0.54	(0.22)
Earnings per share for loss attributable to the owners of Advanced Surgical Design & Manufacture Limited			
Basic earnings per share	36	(0.15)	(1.49)
Diluted earnings per share	36	(0.15)	(1.49)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Assets			
Current assets			
Cash and cash equivalents	9	26	287
Trade and other receivables	10	2,290	2,172
Inventories	11	3,265	3,117
Current assets classified as held for sale	12	-	2,343
Total current assets		5,581	7,919
Non-current assets			
Receivables	13	123	118
Property, plant and equipment	14	2,116	2,567
Intangibles	15	214	153
Total non-current assets		2,453	2,838
Total assets		8,034	10,757
Liabilities			
Current liabilities			
Trade and other payables	16	1,661	1,736
Borrowings	17	1,566	1,139
Provisions	18	148	137
		3,375	3,012
Liabilities directly associated with assets classified as held for sale	19	-	2,556
Total current liabilities		3,375	5,568
Non-current liabilities			
Borrowings	20	233	739
Provisions	21	257	247
Total non-current liabilities		490	986
Total liabilities		3,865	6,554
Net assets		4,169	4,203
Equity			
Issued capital	22	9,602	9,602
Reserves	23	551	521
Accumulated losses	24	(5,984)	(5,920)
Total equity		4,169	4,203

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

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2012	8,818	566	(5,349)	4,035
Loss after income tax expense for the year	-	-	(571)	(571)
Other comprehensive income for the year, net of tax	-	(45)	-	(45)
Total comprehensive income for the year	-	(45)	(571)	(616)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 22)	784	-	-	784
Balance at 30 June 2013	9,602	521	(5,920)	4,203

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2013	9,602	521	(5,920)	4,203
Loss after income tax expense for the year	-	-	(64)	(64)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(64)	(64)
Transactions with owners in their capacity as owners:				
Share-based payments (note 37)	-	30	-	30
Balance at 30 June 2014	9,602	551	(5,984)	4,169

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

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		9,456	8,338
Payments to suppliers and employees (inclusive of GST)		(9,804)	(8,151)
		(348)	187
Interest received		6	7
Interest and other finance costs paid		(228)	(270)
Income taxes refunded relating to research and development		544	605
Net cash from/(used in) operating activities	35	(26)	529
Cash flows from investing activities			
Payments for property, plant and equipment	14	(307)	(307)
Payments for intangibles	15	(86)	(11)
Proceeds from sale of investments		237	-
Net cash used in investing activities		(156)	(318)
Cash flows from financing activities			
Proceeds from issue of shares	22	-	872
Proceeds from debtor finance facility		686	-
Share issue transaction costs		-	(88)
Repayment of lease liabilities		(465)	(325)
Repayments from borrowings - related party		(300)	(200)
Net cash from/(used in) financing activities		(79)	259
Net increase/(decrease) in cash and cash equivalents		(261)	470
Cash and cash equivalents at the beginning of the financial year		287	(183)
Cash and cash equivalents at the end of the financial year	9	26	287

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

Note 1. Significant accounting policies

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

New, revised or amending 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 below. The adoption of these Accounting Standards and Interpretations did not have any significant 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 10 Consolidated Financial Statements
The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns 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 that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has 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.

AASB 11 Joint Arrangements
The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities
The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. 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' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

Note 1. Significant accounting policies (continued)

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities
The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments
The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement
The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

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, as appropriate for for-profit oriented entities. 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.

Note 1. Significant accounting policies (continued)

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 32.

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 2014 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 control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. 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. 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.

Foreign currency translation
The financial statements are 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 approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through 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.

Note 1. Significant accounting policies (continued)

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, such as the research and development tax offset, is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for 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 interests in subsidiaries, associates or 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 entities which intend to settle simultaneously.

Discontinued operations
A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Note 1. Significant accounting policies (continued)

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

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

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

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.

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, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of 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 initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently 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 arm's 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.

Note 1. Significant accounting policies (continued)

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 cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment	2-20 years
Fixtures and fittings	2-13 years
Leasehold improvements	2-10 years
Lease make good	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 fair value of the leased assets, 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.

Note 1. Significant accounting policies (continued)

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

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life 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 intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

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 useful 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 1 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
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 of disposal 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 are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

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

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

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:
- interest on short-term and long-term borrowings
- interest on finance leases

Note 1. Significant accounting policies (continued)

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date 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.

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 38.

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 profit or loss with a corresponding adjustment to equity.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 1. Significant accounting policies (continued)

Issued capital
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.

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.

Note 1. Significant accounting policies (continued)

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 2014. 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.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (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. 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. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

Note 1. Significant accounting policies (continued)

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting
These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities
These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the consolidated entity.

AASB 2014-1 Amendments to Australian Accounting Standards
These amendments are in several parts. Part A makes various amendments to Australian Accounting Standards arising from the issuance of IASB's 'Annual Improvements to IFRSs 2010-2012 Cycle' and 'Annual Improvements to IFRSs 2011-2013 Cycle'. Part B makes amendments to AASB 119 'Employee in relation to the requirements for contributions from employees or third parties that are linked to service which arise from the issuance of IASB's 'Defined Benefit Plans – Employee Contributions (Amendments to IAS 19)'. Part C makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 'Materiality'. Part D makes consequential amendments arising from the issuance of AASB 14 'Regulatory Deferral Accounts'. Part E makes consequential amendments to numerous other Standards as a consequence of the introduction of hedge accounting requirements into AASB 9 'Financial Instruments' in December 2013. Amendments Part A to D are applicable to annual reporting periods beginning on or after 1 July 2014 or as specified in each Part. Amendments Part E are applicable to annual reporting periods beginning on or after 1 January 2015 or as specified in Part E.

Annual Improvements to IFRSs 2010-2012 Cycle
These amendments affect several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle
These amendments affect four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments will not have a material impact on the consolidated entity.

Note 1. Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers
This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 2. Critical accounting judgements, estimates and assumptions

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

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.

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

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 the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

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

Going concern
These financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

This statement is made after noting the following in relation to the financial affairs of the consolidated entity:

- The company has a cash balance of $26,000 as at 30 June 2014 (2013: $287,000) and net current assets of $2,206,000 (2013: $2,351,000).

- The loss before tax and discontinued operations for the financial year ended 30 June 2014 was $301,000 (2013: $488,000) with negative cash flows from operations of $26,000 (2013: positive cash flow of $529,000).

- The company has a debtors finance facility with a limit of $1,500,000. As at 30 June 2014, the company had drawn down $686,000 which is repayable within 90 days.

The directors consider that the company is a going concern for the following reasons:

- ASDM currently holds the distribution rights for Australia and New Zealand for products manufactured by Small Bone Innovation Inc. with this contract is due to expire on 31 December 2014. Small Bone Innovations, Inc announced on 30 June 2014 that they had signed a definitive agreement to sell all their assets to Stryker Corporation with the transaction close expected by the end of the September 2014 quarter. It is Stryker's intention to represent the product range directly in Australia and as such the contract will not extend beyond the expiry date.

- On 26 September 2014, ASDM announced a Fully Underwritten Non-Renounceable pro rata Rights Issue. The Rights Issue, to raise approximately $1.0m, will be made to Eligible Shareholders at an issue price of $0.05 per share on the basis of 23 New Share for every 50 Shares held on the Record Date (7.00 pm, day, 2 October 2014). The Rights Issue is fully underwritten by KAZ Capital Pty Ltd, a Director related entity of ASDM.

- Research and development tax refund – the company has recognised income of $817,000 relating to a research and development tax refund which is expected to be received in October 2014. The current year receivable has been reviewed by the company's tax advisors and there are no indications this will not be recovered.

- Cost savings from efficiency gains – the company is targeting improved efficiency and effectiveness gains throughout the operations with a targeted saving of in excess of $600,000.

- The consolidated entity has an extension in the repayment of a related party loan totaling $270,000 to be payable by 31 October 2014.

- Revenue from continuing operations increased by $797,000 during the period.

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 2014 approximately 31.2% ($2.5m) and 18.5% ($1.5m) (2013: 27% ($2.1m) and 21% ($1.6m)) of the consolidated entity's external revenue was derived from sales to two major hospital groups.

Management reviews EBITDA to make decisions. The following table summarises key reconciling items between statutory profit after tax attributable to the shareholders of Advanced Surgical Design & Manufacture Limited and EBITDA.

Note 3. Operating segments (continued)

Operating segment information

Consolidated - 2014	Intersegment eliminations/ unallocated $'000	Total $'000
EBITDA	704	704
Depreciation and amortisation		(783)
Interest revenue		6
Finance costs		(228)
Profit from discontinued operations		237
Loss before income tax expense		(64)
Income tax expense		-
Loss after income tax expense		(64)

Consolidated - 2013	Intersegment eliminations/ unallocated $'000	Total $'000
EBITDA	788	788
Depreciation and amortisation		(1,013)
Interest revenue		7
Finance costs		(270)
Loss from discontinued operations		(83)
Loss before income tax expense		(571)
Income tax expense		-
Loss after income tax expense		(571)

For segment assets and liabilites refer to statement of financial position.

Note 4. Revenue

	Consolidated	
	2014 $'000	**2013 $'000**
From continuing operations		
Sales revenue		
Sale of goods	7,966	7,156
Other revenue		
Interest	6	7
Sub-lease rentals	-	12
	6	19
Revenue from continuing operations	7,972	7,175

Note 5. Other income

	Consolidated 2014 $'000	2013 $'000
Net foreign exchange gain	-	121
Other income	-	3
Research and development tax offset	817	544
Other income	817	668

Note 6. Expenses

	Consolidated 2014 $'000	Consolidated 2013 $'000
Loss before income tax from continuing operations includes the following specific expenses:		
Depreciation		
Plant and equipment	184	293
Fixtures and fittings	206	223
Leasehold improvements	63	44
Lease make good	-	40
Instrument sets	305	299
Total depreciation	758	899
Amortisation		
Website	12	16
Patents and trademarks	13	98
Total amortisation	25	114
Total depreciation and amortisation	783	1,013
Impairment		
Inventories	95	347
Trade receivables	11	-
Total impairment	106	347
Finance costs		
Interest and finance charges paid/payable	228	270
Net foreign exchange loss		
Net foreign exchange loss	133	-
Rental expense relating to operating leases		
Minimum lease payments	422	665
Superannuation expense		
Defined contribution superannuation expense	249	204
Share-based payments expense		
Share-based payments expense	30	25
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	2,362	2,112

Note 7. Income tax expense

	Consolidated 2014 $'000	Consolidated 2013 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense from continuing operations	(301)	(488)
Profit before income tax (expense)/benefit from discontinued operations	237	(83)
	(64)	(571)
Tax at the statutory tax rate of 30%	(19)	(171)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	2	3
Share-based payments	9	7
Concessional research and development expenditure treatment	545	363
Sundry items	(214)	(31)
	323	171
Carried forward income tax losses utilised	(318)	(165)
Share raising cost recognised directly in equity	(5)	(6)
Income tax expense	-	-

	Consolidated 2014 $'000	Consolidated 2013 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	3,777	4,839
Potential tax benefit @ 30%	1,133	1,452

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 against future taxable income if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 8. Discontinued operations

Description
On 12 July 2013, the consolidated entity signed an agreement with Orthofix Australia Pty Ltd for the disposal of its spinal business. This business has therefore been treated as a discontinued operation.

Note 8. Discontinued operations (continued)

Financial performance information

	Consolidated 2014 $'000	2013 $'000
Revenue	-	618
Total revenue	-	618
Cost of sales and purchases of consumables	-	(133)
Corporate and administration expenses	-	(254)
Sales and marketing expense	-	(314)
Total expenses	-	(701)
Loss before income tax expense	-	(83)
Income tax expense	-	-
Loss after income tax expense	-	(83)
Gain on sale before income tax	237	-
Income tax expense	-	-
Gain on disposal after income tax expense	237	-
Profit/(loss) after income tax (expense)/benefit from discontinued operations	237	(83)

Cash flow information

	Consolidated 2014 $'000	2013 $'000
Net cash used in operating activities	(39)	(59)

Note 9. Current assets - cash and cash equivalents

	Consolidated 2014 $'000	2013 $'000
Cash on hand	26	287

Note 10. Current assets - trade and other receivables

	Consolidated 2014 $'000	2013 $'000
Trade receivables	1,251	1,221
Other receivables	2	177
Research and development tax receivable	817	544
	819	721
Prepayments	220	230
	2,290	2,172

Note 10. Current assets - trade and other receivables (continued)

Impairment of receivables
The consolidated entity has recognised a provision $nil (2013: $nil) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2014.

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $728,000 as at 30 June 2014 ($262,000 as at 30 June 2013).

These relate to a number of independent customers for whom there is no recent history of default.

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

	Consolidated	
	2014 $'000	2013 $'000
1 to 2 months	673	214
3 to 4 months	55	48
	728	262

Note 11. Current assets - inventories

	Consolidated	
	2014 $'000	2013 $'000
Raw materials - at cost	375	366
Work in progress - at cost	247	276
Finished goods - at lower of cost or net realisable value	2,623	2,475
Stock in transit - at cost	20	-
	3,265	3,117

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to $95,000 (2013: $347,000). The expense has been included in ‘cost of sales and purchase of consumables’ in profit or loss.

Note 12. Current assets - current assets classified as held for sale

	Consolidated	
	2014 $'000	2013 $'000
Inventories	-	2,343

Refer to note 8.

Note 13. Non-current assets - receivables

	Consolidated 2014 $'000	Consolidated 2013 $'000
Other receivables	123	118

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

Note 14. Non-current assets - property, plant and equipment

	Consolidated 2014 $'000	Consolidated 2013 $'000
Plant and equipment - at cost	6,780	6,672
Less: Accumulated depreciation	(5,915)	(5,732)
	865	940
Fixtures and fittings - at cost	1,963	1,811
Less: Accumulated depreciation	(1,548)	(1,342)
	415	469
Leasehold improvements - at cost	470	467
Less: Accumulated depreciation	(364)	(301)
	106	166
Lease make good - at cost	300	300
Less: Accumulated depreciation	(300)	(300)
	-	-
Instrument sets - at cost	2,572	2,529
Less: Accumulated depreciation	(1,842)	(1,537)
	730	992
	2,116	2,567

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

Consolidated	Plant and equipment $'000	Fixtures and fittings $'000	Leasehold improvements $'000	Lease make good $'000	Instrument sets $'000	Total $'000
Balance at 1 July 2012	1,198	651	23	40	1,247	3,159
Additions	10	66	187	-	44	307
Depreciation expense	(293)	(223)	(44)	(40)	(299)	(899)
Balance at 30 June 2013	915	494	166	-	992	2,567
Additions	134	127	3	-	43	307
Depreciation expense	(184)	(206)	(63)	-	(305)	(758)
Balance at 30 June 2014	865	415	106	-	730	2,116

Property, plant and equipment secured under finance leases
Refer to note 30 for further information on property, plant and equipment secured under finance leases.

Note 15. Non-current assets - intangibles

	Consolidated 2014 $'000	Consolidated 2013 $'000
Website - at cost	121	121
Less: Accumulated amortisation	(121)	(109)
	-	12
Patents and trademarks - at cost	609	523
Less: Accumulated amortisation	(395)	(382)
	214	141
	214	153

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

Consolidated	Website $'000	Patents and trademarks $'000	Total $'000
Balance at 1 July 2012	28	228	256
Additions	-	11	11
Amortisation expense	(16)	(98)	(114)
Balance at 30 June 2013	12	141	153
Additions	-	86	86
Amortisation expense	(12)	(13)	(25)
Balance at 30 June 2014	-	214	214

Note 16. Current liabilities - trade and other payables

	Consolidated 2014 $'000	Consolidated 2013 $'000
Trade payables	697	554
Accrued expenses	601	836
Other payables	363	346
	1,661	1,736

Refer to note 26 for further information on financial instruments.

Note 17. Current liabilities - borrowings

	Consolidated 2014 $'000	Consolidated 2013 $'000
Debtor finance facility	686	-
Related party loans	270	570
Lease liability	610	569
	1,566	1,139

Refer to note 20 for further information on assets pledged as security and financing arrangements.

Refer to note 26 for further information on financial instruments.

Note 18. Current liabilities - provisions

	Consolidated 2014 $'000	Consolidated 2013 $'000
Employee benefits	148	137

Note 19. Current liabilities - liabilities directly associated with assets classified as held for sale

	Consolidated 2014 $'000	Consolidated 2013 $'000
Trade payables	-	2,546
Employee benefits	-	10
	-	2,556

Refer to note 8.

Note 20. Non-current liabilities - borrowings

	Consolidated 2014 $'000	Consolidated 2013 $'000
Lease liability	233	739

Refer to note 26 for further information on financial instruments.

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

	Consolidated 2014 $'000	Consolidated 2013 $'000
Lease liability	843	1,308
Debtor finance facility	686	-
	1,529	1,308

Note 20. Non-current liabilities - borrowings (continued)

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

	Consolidated	
	2014 $'000	2013 $'000
Cash and cash equivalents	-	287
Receivables	1,315	1,319
Plant and equipment	582	537
	1,897	2,143

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

	Consolidated	
	2014 $'000	2013 $'000
Total facilities		
Related party borrowing facility	270	570
Lease liability	843	1,308
Business card facility	15	15
Debtor finance facility	1,500	-
	2,628	1,893
Used at the reporting date		
Related party borrowing facility	270	570
Lease liability	843	1,308
Business card facility	-	-
Debtor finance facility	686	-
	1,799	1,878
Unused at the reporting date		
Related party borrowing facility	-	-
Lease liability	-	-
Business card facility	15	15
Debtor finance facility	814	-
	829	15

Note 21. Non-current liabilities - provisions

	Consolidated	
	2014 $'000	2013 $'000
Employee benefits	48	38
Lease make good	209	209
	257	247

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.

Note 22. Equity - issued capital

	Consolidated			
	2014 Shares	2013 Shares	2014 $'000	2013 $'000
Ordinary shares - fully paid	43,751,248	43,751,248	9,602	9,602

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2012	35,298,996		8,818
Shares issued	23 October 2012	750,000	$0.11	25
Shares issued	13 February 2013	5,407,349	$0.11	595
Shares issued	03 April 2013	2,294,903	$0.11	252
Shares issued transaction cost		-	$0.00	(88)
Balance	30 June 2013	43,751,248		9,602
Balance	30 June 2014	43,751,248		9,602

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 and the company does not have a limited amount of authorised capital.

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

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

Capital risk management
The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that 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 2013 Annual Report.

Note 23. Equity - reserves

	Consolidated	
	2014 $'000	2013 $'000
Share-based payments reserve	551	521

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

Note 23. Equity - reserves (continued)

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency $'000	Share-based payments $'000	Total $'000
Balance at 1 July 2012	45	521	566
Foreign currency translation	(45)	-	(45)
Balance at 30 June 2013	-	521	521
Share-based payments	-	30	30
Balance at 30 June 2014	-	551	551

Note 24. Equity - accumulated losses

	Consolidated 2014 $'000	Consolidated 2013 $'000
Accumulated losses at the beginning of the financial year	(5,920)	(5,349)
Loss after income tax expense for the year	(64)	(571)
Accumulated losses at the end of the financial year	(5,984)	(5,920)

Note 25. Equity - dividends

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

Franking credits

	Consolidated 2014 $'000	Consolidated 2013 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	320	320

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 26. 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, price 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 derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. 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.

Note 26. Financial instruments (continued)

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the 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 is 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	
Consolidated	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**
Euros	-	-	3	4
New Zealand dollars	39	15	-	-
Swiss Francs	-	-	-	3
US Dollars	-	-	330	2,788
	39	15	333	2,795

The consolidated entity had net liabilities denominated in foreign currencies of $294,000 (assets $39,000 less liabilities $333,000) as at 30 June 2014 (2013: $2,780,000 (assets $15,000 less liabilities $2,795,000)). Based on this exposure, had the Australian Dollar weakened/strengthened by 10% (2013: weakened / strengthened by 10%) against these foreign currencies with all other variables held constant, the consolidated entity's loss before tax for the year would have been $29,000 higher (2013: $278,000 higher) and equity would have been $29,000 lower (2013: $278,000 lower). 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 2014 was $133,000 (2013: foreign exchange gain of $76,000).

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

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

For the consolidated entity the bank and other loans outstanding, totalling $1,113,000 (2013: $1,561,000), are principal and interest payment loans. The minimum principal repayments of $880,000 (2013: $1,008,000) are due during the year ending 30 June 2015 (2013: 30 June 2014) for these loans.

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

Note 26. Financial instruments (continued)

As at the reporting date, the consolidated entity had the following variable rate borrowings outstanding:

Consolidated	2014 Weighted average interest rate %	2014 Balance $'000	2013 Weighted average interest rate %	2013 Balance $'000
Debtor finance facility	8.87%	686	-%	-
Net exposure to cash flow interest rate risk		686		-

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

Credit risk

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

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 2014 $'000	Consolidated 2013 $'000
Business card facility	15	15
Debtor finance facility	814	-
	829	15

The $Nil rent deposit (2013: $118,000) included in other receivables (Note 13).

Note 26. 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.

Consolidated - 2014	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
Non-derivatives						
Non-interest bearing						
Trade payables	-%	697	-	-	-	697
Other payables	-%	363	-	-	-	363
Interest-bearing - variable						
Debtor finance facility	8.87%	686	-	-	-	686
Interest-bearing - fixed rate						
Related party loan	15.00%	270	-	-	-	270
Finance leases	8.68%	628	235	98	-	961
Total non-derivatives		2,644	235	98	-	2,977

Consolidated - 2013	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
Non-derivatives						
Non-interest bearing						
Trade payables	-%	3,100	-	-	-	3,100
Other payables	-%	346	-	-	-	346
Interest-bearing - fixed rate						
Related party loan	15.00%	655	-	-	-	655
Finance leases	8.68%	639	598	330	-	1,567
Total non-derivatives		4,740	598	330	-	5,668

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

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 27. Key management personnel disclosures

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

	Consolidated 2014 $	Consolidated 2013 $
Short-term employee benefits	413,230	286,289
Post-employment benefits	24,026	18,235
Long-term benefits	7,568	9,801
Share-based payments	10,000	10,000
	454,824	324,325

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PwC, the auditor of the company:

	Consolidated 2014 $	Consolidated 2013 $
Audit services - PwC		
Audit or review of the financial statements	102,500	108,000
Other services - PwC		
Tax compliance services	12,500	15,000
Tax consulting and advice	30,000	85,000
	42,500	100,000
	145,000	208,000

Note 29. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2014 and 30 June 2013.

The consolidated entity has performance guarantee totalling $118,000 at 30 June 2014 (2013: $118,000) in relation to rental commitments.

Note 30. Commitments

	Consolidated	
	2014 $'000	2013 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	356	344
One to five years	243	600
	599	944
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	628	639
One to five years	333	928
Total commitment	961	1,567
Less: Future finance charges	(118)	(259)
Net commitment recognised as liabilities	843	1,308
Representing:		
Lease liability - current (note 17)	610	569
Lease liability - non-current (note 20)	233	739
	843	1,308

The future minimum non-cancellable sub-lease operating lease payments expected to be received by the consolidated entity is $Nil (2013: $Nil).

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 $582,000 (2013: $537,000) 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 31. Related party transactions

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

Subsidiaries
Interests in subsidiaries are set out in note 33.

Key management personnel
Disclosures relating to key management personnel are set out in note 27 and the remuneration report in the directors' report.

Note 31. Related party transactions (continued)

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

	Consolidated 2014 $	Consolidated 2013 $
Payment for goods and services:		
Fee for maintenance and support services from Anittel Group Limited (shareholder and director related entity of Peter Kazacos)	90,495	82,374
Fee for hardware and installation services from Anittel Group Limited (shareholder and director related entity of Peter Kazacos)	89,050	-
Fees paid to Law Corporation (director related entity of Peter Kazacos)	-	3,500
Fees paid to Custom Spine - other related party	25,943	-
Payment for other expenses:		
Interest paid to parties related to Tom Milicevic	68,383	108,730

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

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

	Consolidated 2014 $	Consolidated 2013 $
Current borrowings:		
Loan with parties related to Tom Milicevic *	270,020	570,020

* This loan is due and payable by 31 October 2014 and is at 15% interest rate.

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

Note 32. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent 2014 $'000	Parent 2013 $'000
Loss after income tax	(64)	(616)
Total comprehensive income	(64)	(616)

Note 32. Parent entity information (continued)

Statement of financial position

	Parent 2014 $'000	Parent 2013 $'000
Total current assets	5,648	7,936
Total assets	8,051	10,774
Total current liabilities	3,375	5,568
Total liabilities	3,865	6,554
Equity		
Issued capital	9,602	9,602
Share-based payments reserve	551	521
Accumulated losses	(5,967)	(5,903)
Total equity	4,186	4,220

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2014 and 30 June 2013.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2014 and 30 June 2013.

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 33. Interests in 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:

Name	Principal place of business / Country of incorporation	Ownership interest 2014 %	Ownership interest 2013 %
ASDM Holdings Pty Limited	Australia	100.00%	100.00%
Advanced Surgical Design & Manufacture (UK) Limited *	United Kingdom	100.00%	100.00%

* This entity is dormant.

Note 34. Events after the reporting period

ASDM currently holds the distribution rights for Australia and New Zealand for products manufactured by Small Bone Innovation Inc. with this contract due to expire on 31 December 2014. Small Bone Innovations, Inc announced on 30 June 2014 that they had signed a definitive agreement to sell all their assets to Stryker Corporation with the transaction close expected by the end of the September 2014 quarter. It is Stryker's intention to represent the product range directly in Australia and as such the contract will not extend beyond the expiry date.

On 26 September 2014, ASDM announced a Fully Underwritten Non-Renounceable pro rata Rights Issue. The Rights Issue, to raise approximately $1.0m, will be made to Eligible Shareholders at an issue price of $0.05 per share on the basis of 23 New Share for every 50 Shares held on the Record Date (7.00 pm, day, 7 October 2014). The Rights Issue is fully underwritten by KAZ Capital Pty Ltd, a Director related entity of ASDM.

No other matter or circumstance has arisen since 30 June 2014 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 35. Reconciliation of loss after income tax to net cash from/(used in) operating activities

	Consolidated	
	2014 $'000	2013 $'000
Loss after income tax expense for the year	(64)	(571)
Adjustments for:		
Depreciation and amortisation	783	1,013
Share-based payments	30	-
Foreign exchange differences	-	(45)
Profit from discontinued operations	(237)	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	140	269
Decrease/(increase) in inventories	(148)	137
Decrease/(increase) in income tax refund due	(273)	61
Decrease/(increase) in prepayments	10	(26)
Decrease in trade and other payables	(75)	(235)
Increase/(decrease) in other provisions	21	(74)
Increase net of current assets and liabilities classified as held for sale	(213)	-
Net cash from/(used in) operating activities	(26)	529

Note 36. Earnings per share

	Consolidated	
	2014 $'000	2013 $'000
Earnings per share for loss from continuing operations		
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	(301)	(488)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	43,751,248	38,418,751
Weighted average number of ordinary shares used in calculating diluted earnings per share	43,751,248	38,418,751

Note 36. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(0.69)	(1.27)
Diluted earnings per share	(0.69)	(1.27)

	Consolidated	
	2014 $'000	2013 $'000
Earnings per share for profit/(loss) from discontinued operations		
Profit/(loss) after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	237	(83)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	43,751,248	38,418,751
Weighted average number of ordinary shares used in calculating diluted earnings per share	43,751,248	38,418,751

	Cents	Cents
Basic earnings per share	0.54	(0.22)
Diluted earnings per share	0.54	(0.22)

	Consolidated	
	2014 $'000	2013 $'000
Earnings per share for loss		
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	(64)	(571)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	43,751,248	38,418,751
Weighted average number of ordinary shares used in calculating diluted earnings per share	43,751,248	38,418,751

	Cents	Cents
Basic earnings per share	(0.15)	(1.49)
Diluted earnings per share	(0.15)	(1.49)

Options granted to employees under the Employee Option Plan for year ended 30 June 2014 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 an Employee Share Option Plan ('Option Plan') which was approved by shareholders at an Extraordinary General Meeting held in May 2006. Key management personnel’s long-term incentives can be derived from participation in the Option Plan. This long term incentive program aligns the interests of key management personnel more closely with those of company's shareholders and rewards sustained and superior performance.

Note 37. Share-based payments (continued)

The objective of the Option Plan is to assist in the recruitment, reward, retention and motivation of employees of the consolidated entity 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.

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

2014

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercisable	Expired/ forfeited/ other	Balance at the end of the year
16/11/2007	16/11/2013	$0.60	200,000	-	-	(200,000)	-
			200,000	-	-	(200,000)	-

* At the reporting date there were Nil options vested (2013: 200,000). The weighted average remaining contractual life of share options outstanding at the end of the period was Nil (2013: 0.38 years).

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 2014 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)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Kazacos
Director

26 September 2014
Sydney

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

Report on the financial report

We have audited the accompanying financial report of Advanced Surgical Design & Manufacture Limited (the company), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other 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 & Manufacture Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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. Those 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Advanced Surgical Design & 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 2014 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*.

(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 5 to 11 of the directors' report for the year ended 30 June 2014. 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 & Manufacture Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

SPrakash

Sumanth Prakash
Partner

Sydney
26 September 2014

The shareholder information set out below was applicable as at 20 August 2014.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	10	-
1,001 to 5,000	136	-
5,001 to 10,000	83	-
10,001 to 100,000	107	-
100,001 and over	32	-
	368	-
Holding less than a marketable parcel	164	-

Equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	7,781,939	17.79
CRYPTYCH PTY LTD	7,067,856	16.15
WELSH SUPERANNUATION PTY LIMITED	6,600,000	15.09
MARIE CAROLL & DAWSON CAROLL	5,636,285	12.88
MERGIN INVESTMENTS PTY LTD (M & V CROSS SUPER FUND A/C)	2,332,857	5.33
MR THOMAS JAMES CARROLL	1,000,000	2.29
MR KENNETH CAMPBELL	1,000,000	2.29
MISTY HILLS NOMINEES PTY LTD	892,857	2.04
MR NICHOLAS HARTNELL	832,151	1.90
DESTIN PTY LIMITED	572,000	1.31
PETER WELSH	473,685	1.08
MS NICOLE FAITH ROGER	403,334	0.92
CRYPTYCH PTY LTD (CRYPTYCH SUPER FUND)	355,000	0.81
GEGM INVESTMENTS PTY LTD	353,000	0.81
SIMON ROBERTS	309,358	0.71
TOM MILICEVIC	303,334	0.69
LESLIE HARRY CROSS	300,000	0.69
JOHN O'MEARA & MARGARET O'MEARA	300,000	0.69
ASGARD CAPITAL MANAGEMENT LTD (1052744 WOOD SUPER FUND A/C)	286,000	0.65
DESMOND J BOKOR PTY LIMITED (KOORINGA SUPER FUND A/C)	286,000	0.65
	37,085,656	84.77

Unquoted equity securities
There are no unquoted equity securities.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	8,747,424	19.99
CRYPTYCH PTY LTD and GREGORY JAMES ROGER	7,946,190	18.16
WELSH SUPERANNUATION PTY LIMITED	7,073,285	16.17
MARIE CAROLL & DAWSON CAROLL	5,636,285	12.88
MERGIN INVESTMENTS PTY LTD	2,332,857	5.33

The above is the information disclosed in the most recent substantial holding notices given to the company.

Voting rights

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

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

There are no other classes of equity securities.