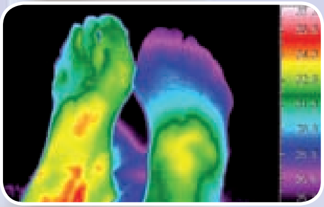
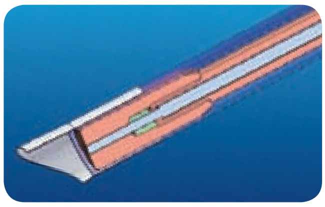
ADVANCED SURGICAL DESIGN & MANUFACTURE



ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED

ANNUAL REPORT 2009

Contents

CHAIRMAN'S LETTER

Dear Shareholder,

On behalf of the Board of directors, I am pleased to present the annual report for Advanced Surgical Design and Manufacture Limited ("ASDM") for the financial year ended 30 June 2009.

During the 2009 financial year, ASDM has continued to progress towards its goal of having a range of products in the existing orthopaedic market and the development and commercialisation of new specialised devices and technologies.

Despite difficult financial conditions worldwide, ASDM successfully maintained a positive operating cashflow while expanding our geographic reach and product range. This has occurred through the successful completion of the instrument sets and use of the funds raised in the previous year's IPO.

Our sales initiatives gathered momentum with sales and clinical experts on the ground now in Victoria, the United Kingdom and United States. Furthermore, we received milestone payments for the successful progress of our "Ultra-Polishing Technology" licensed with a US based global orthopaedic group.

ASDM continues to develop, in collaboration with surgeon inventors, a range of new products, one of which is the Peripheral Access Device. We made steady gains with this ground breaking technology throughout 2009 with the number of patients treated growing and the number of limbs saved a major triumph. This culminated after year end in ASDM receiving a CE Mark on the PAD, enabling it to be used in Australia and Europe as access to the arterial system, for example in chemotherapy optimisation.

On your behalf I wish to thank your Board, management and staff for their contribution over the last 12 months. I also wish to convey the appreciation of many people who have been touched by the benefits provided by the individuals at ASDM, the people that make it the company it is.

We have built a solid platform since our inception in 1994 and the next 12 months provides an excellent opportunity for ASDM to capitalise on the groundwork laid. I look forward to the opportunity to work together with the Board, management and staff to ensure the patience of shareholders bears fruit over the next 12 months.

Yours sincerely

Peter Kazacos
Chairman

It is with a sense of pride and anticipation that I am, on behalf of the team at ASDM, presenting this report to our shareholders.

Background

ASDM was founded in 1994 and has used shareholder investment and the returns from its sales since to invest in research and new product development with a view to broadening its product range and depth. In the field of primary knee replacement prosthesis, ASDM's Active Knee is amongst the leading designs in the Australian market. Our principal products have clinical histories going back more than seventeen years and building upon that experience in medical device development we now receive revenues from consulting and design services as well as from the sale of a range of medical devices. From this strong position we are now well on the way to executing our strategy of targeting high value niche opportunities in the global market.

2009 Highlights

Innovative people delivering solutions:

Revenue

Total revenue for the year ended 30 June 2009 was $6.2 million, a 9.2% decrease from the 2008 financial year. Core sales unit growth was in-line with the 2008 financial year and pricing across most product lines has remained strong. The year on year variance predominantly relates to a large stocking order for the UK received in June 2008, whereas during the 2009 financial year there were no such orders. We continue to gain new surgeon acceptance of our products and are growing into markets which we previously had no or limited presence such as Victoria, United Kingdom and United States.

Net profit from ordinary activities

Net loss after tax was $1.0 million, compared to the half-year net loss of $1.0 million at December 2008 and a profit of $0.2 million in 2008 financial year. This result is after the expensing of all research and development related expenses. Earnings per share for financial year ended 30 June 2009 was a loss of 2.90 cents per share, a decrease from 0.54 cents for 2008 financial year.

Key achievements

During the financial year ended 30 June 2009, the company achieved a number of significant milestones including:

- Continued trials of the efficacy of the PAD;
- Lodging a Class IIa registration application for the PAD, with approval granted after year end;
- Continued investment in developing new markets with the appointment in June 2009 of a distributor in the United States, with early sales growth already achieved;
- Receiving milestone payments for the successful progress of our "Polishing Technology" licensed with a US based global orthopaedic group, the latest payment following successful third party testing of the polishing technology's effects on a chrome cobalt knee replacement; and
- Maintaining a positive operating cash flow position.

Product Development

Knee

We continue to innovate in response to market feedback with a number of further new instrument designs incorporated into our existing range, thereby further broadening the appeal of the Active Knee and ensuring more patients benefit from the seventeen years of proven clinical performance. We have introduced the mobile bearing version, on the back of a successful ten year clinical trial, and this has now been made available to a broader range of surgeons and patients. Independent testing of the Active Knee in Europe has shown that the ultra-polished surface has approximately one third the wear rate as compared to the average of other companies' knees tested.

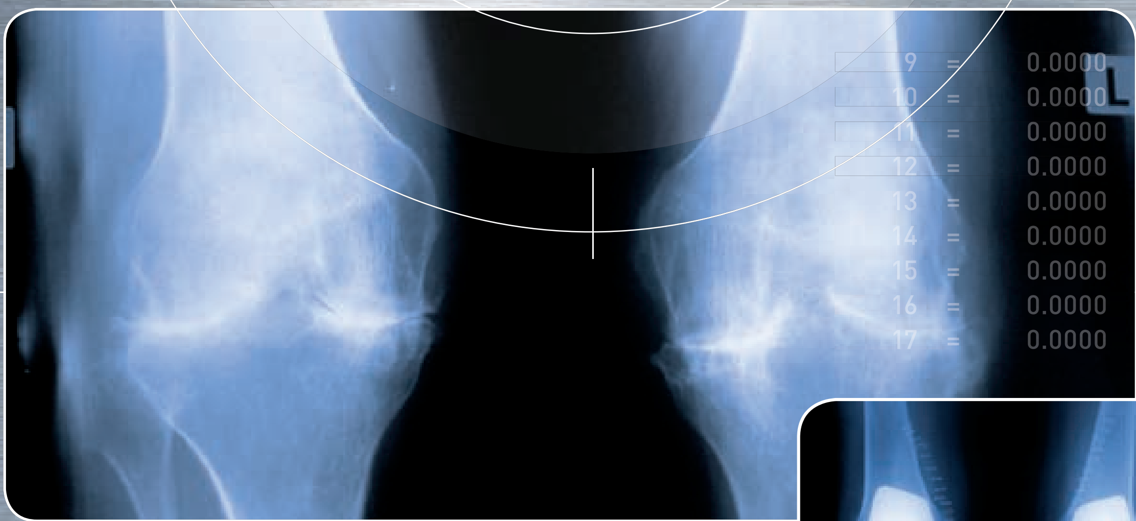
Clavicle

The instrumentation and design of this innovative solution to a very common fracture, the broken collar bone, has been completed and a range of surgeons are now taking up this method of treatment for their high performance athletes and young people. In addition, more surgeons have joined the design panel to cover the whole range of clavicle and peri-shoulder fractures. We anticipate international sales of this device and the new developments to commence in the forthcoming year.

Carpal

The clinical usefulness of this device continues to be demonstrated with a large number having been implanted in patients with wrist degeneration. Having been well received at a hand and wrist conference in Queensland this implant is now being offered in Australia and the UK. The CE Mark has been received from the TGA for this device and international sales are now set to grow.

ASDM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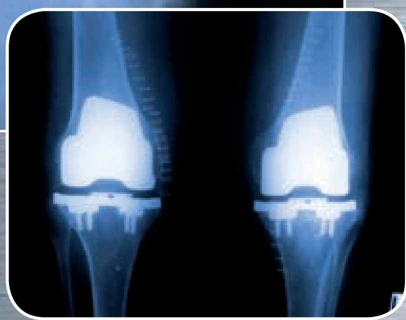


PAD

ASDM has the exclusive worldwide manufacturing rights to the Peripheral Access Device (PAD), which aims to improve the lives of patients suffering vascular insufficiency, or Peripheral Vascular Disease.

This world first innovative device, along with the hyper-perfusion treatment of gangrenous legs facing amputation, continues in clinical trial with great success. The device and treatment were featured in a ground breaking article in the Journal of Vascular Surgery, the premier international journal in the field of vascular surgery and therapies. We continued to work with the inventor of the treatment, Dr Rodney Lane of AllVascular Pty Limited, to develop other uses.

Consequently, the focus on this innovation led to the successful Class IIa approval for this device in early August 2009. The Class IIa approval allows the device to be sold for vascular access purposes in Australia and Europe, with recognition in many other parts of the world as a result. The Class IIa uses of the PAD, as distinct from hyperperfusion uses which are Class III, hinge upon the ability to provide intermittent and repeatable vascular access. The key to this device is its ability to access the patient's principal arteries, intermittently, with the device remaining implanted until after the course of treatments is complete. Between treatment sessions the device is sealed and it is envisaged that the patient will be able to stay at home. Further information on this application of the PAD is contained in the Directors' Report under Review of Operations.

Our other work with the PAD in developing the hyperperfusion treatment for limbs threatened with amputation, usually from diabetes or smoking, continues apace. We are pursuing the multi-centre multi-surgeon clinical trials that will provide the clinical evidence required for the Class III TGA approval.

The market potential for the PAD is very large, both for the hyperfusion treatment and as a device permitting intermittent and repeated vascular access.

Anticipating that these trials will provide convincing clinical evidence of the efficacy of the device, ASDM is preparing to progressively commercialise the PAD across the world. This puts ASDM on course in its plan to roll out the PAD technology through selected centres of excellence in each country.

Other

ASDM's design expertise is now highly sought after and ASDM has engaged in a number of early stage design collaborations in a range of fields. Many of these designs are expected to lead to commercially available medical devices within the next few years, further enhancing ASDM's track record and the range of products we have been able to provide for the benefit of patients.

Intellectual Property

ASDM now owns a significant suite of intellectual property in medical devices and their manufacture. Developing new technology is important as is protecting our intellectual property. ASDM works with its Australian Patent Attorneys as well as with one of the United States' leading law firms in the field of patenting and the protection of intellectual property.

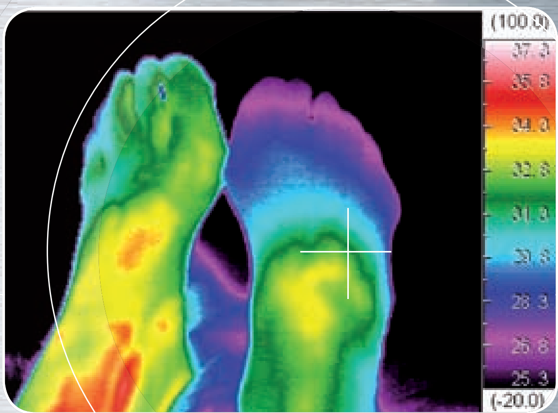
Personnel

Over the past year we have continued to build an experienced team in all areas of the company particularly manufacturing, design, quality and finance. Our sales and clinical team has been a substantial focus with a new representative in Victoria and a new team established in the United Kingdom. As at 30 June 2009 our head count totalled 43 and it is anticipated that over the next 12 months our staff numbers will continue to increase particularly in the area of sales and marketing. This will enable us to meet our strategic growth ambitions and we would be unable to do this without the committed support and passion of the team at ASDM.

Outlook

The coming year is set to be one of steady growth in our core product range in terms of product offerings, sales volume and international reach. We are particularly excited about the successful progress of many of our innovative products and in particular the ground breaking PAD vascular device, which has massive potential in the near term. ASDM remains committed to its mission of improving patient outcomes through leading edge medical device innovation, design and manufacture.

Dr Greg Roger
Chief Executive Officer/Managing Director



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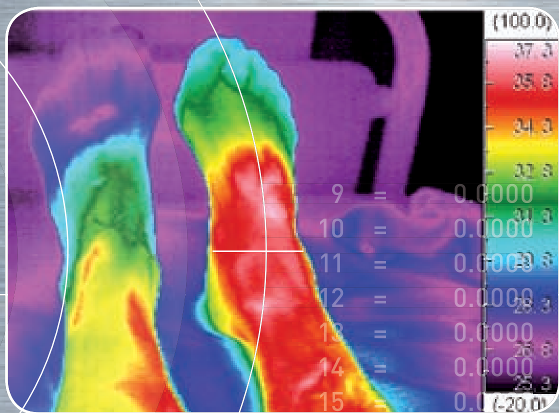

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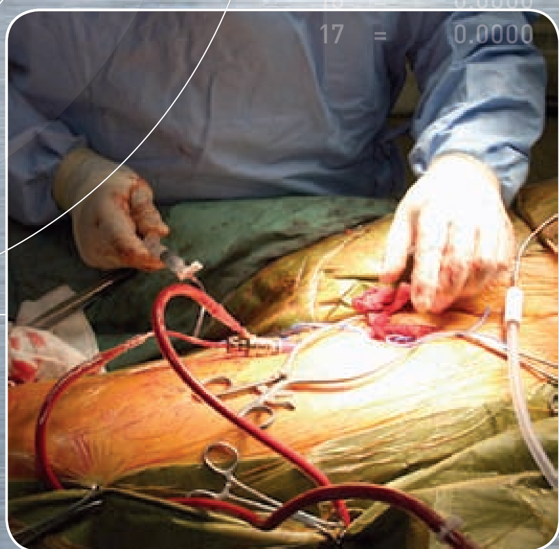

Your directors present their report on Advanced Surgical Design & Manufacture Limited (referred to hereafter as 'Company' or 'ASDM') for the year ended 30 June 2009.

DIRECTORS

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

Peter Kazacos
Gregory James Roger
Walter Kmet

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was the design and manufacture of surgical implants. No significant change in the nature of these activities occurred during the year.

DIVIDENDS – ASDM

No dividend has been paid during the year and no dividends have been proposed since year end (2008: $Nil).

REVIEW OF OPERATIONS

A summary of results is set out below:

	2009 $	2008 $
(Loss)/profit from ordinary activities before income tax expense	**(1,637,432)**	182,994
Income tax benefit/ (expense)	**612,737**	(2,989)
	(1,024,695)	180,005

COMMENTARY ON RESULTS

Key achievements

During the financial year ended 30 June 2009, the company achieved a number of significant milestones including:

- Continued trials of the efficacy of the PAD;
- Lodging a Class IIa registration application for the PAD, with approval recently granted;
- Continued investment in developing new markets with the appointment of a distributor in the United States;
- Receiving milestone payments for the successful progress of our "Polishing Technology" licensed with a US based global orthopaedic group; and
- Maintaining a positive operating cash flow position.

Revenue

Total revenue for the year ended 30 June 2009 was $6.2 million, a 9.2% decrease from the 2008 financial year. Core sales unit growth was in-line with the 2008 financial year and pricing across most product lines has remained strong. The year on year variance predominantly relates to a large stocking order for the UK received in June 2008, during the 2009 financial year there were no such orders. We continue to gain new surgeon acceptance of our products and are growing into markets which we previously had no or limited presence such as Victoria, United Kingdom and United States.

Net loss from ordinary activities

ASDM growth strategy, to invest earnings into promising areas of biotechnology and investment in new markets, as foreshadowed in our Prospectus of 2007, remains on track. As a result the earnings before interest, tax and depreciation and amortisation ("EBITDA") was a loss of $0.7 million compared to a profit of $0.9 million in the 2008 financial year. During the financial year we completed 20 instrument sets and are now embarking on an additional 30 instrument sets to further strengthen our position and underpin our growth both domestically and internationally. The development of these sets, which positions ASDM for growth in all markets, has resulted in a negative margin impact from non recoverable manufacturing costs, due to manufacturing tooling and methods refinement, and start up efficiency issues being resolved effectively. As a consequence the quality and design of these instruments is now world class.

One of the key elements of our strategy is the geographic diversification of our business to increase growth opportunities. This has resulted in increased sales and marketing costs during the financial year ended 30 June 2009. One sector of our business, orthopaedic implant manufacturing and sales, traditionally has a significant time lag between sales and marketing expenses spend and revenue growth as surgeons evaluate products in a conservative and cautious manner. During the current financial year this platform continued to be developed and we expect to see further positive outcomes from this strategy over the next 12 months.

ASDM is well placed to continue developing new and innovative products with the assistance of Australia's leading surgeons. During the year we have intentionally increased our Research and Development ("R&D") spend by 11% with significant focus being the continued development of the Peripheral Access Device "PAD". The focus on this innovation led to the successful Class IIa approval for this device in early August 2009. The Class IIa approval allows the device to be sold for vascular access purposes in Australia and Europe, with recognition in many other parts of the world as a result.

The Class IIa uses of the PAD, as distinct from Hyperperfusion uses which are Class III, hinge upon the ability to provide intermittent and repeatable vascular access. This new tool for the vascular surgeon and other branches of the medical profession literally opens a new door to therapies. For example, chemotherapy treatments can now be delivered to isolated areas of the body day after day. Currently, isolated organ and isolated limb perfusion is restricted to "one off" doses. With the PAD inserted into the patient for up to a month a longer course of chemotherapy can be delivered with likely survival improvements. It is also possible that the "isolated" nature of the chemotherapy regime will allow the use of a broader range of chemotherapy treatments previously precluded due to whole body toxicity effects. Much as arthroscopy opened up the knee joint to new and innovative therapies, the ability to intermittently access the arterial system of patients opens the doors for an array of new intervention methods, not just for cancer. The market size for this application of the PAD is clearly far greater than for the threatened leg application.

Corporate and administration costs have increased in line with expectation as a result of being a publicly listed company. The aim was to list in a period where projects were in their early stages to enable us to focus on product delivery when necessary rather than have the noise of accessing the capital markets occurring at the same time as intense R&D pressures were being fielded. This strategy puts us in a strong position to access the capital markets when required to continue developing our business as opportunities present themselves; for example when the PAD requires funds to accelerate its commercialisation timeline.

The impact of the initiatives detailed above and their timing is apparent in the comparison of the results at December 2008, where the entirety of the cash burn and losses were realised, and the subsequent six months where there has been an improvement in the cash balance and our earnings.

Net loss after tax was $1.0 million, compared to the half-year net loss of $1.0 million at December 2008 and a profit of $0.2 million in 2008 financial year. This result is after the expensing of all research and development related expenses.

Earnings per share for financial year ended 30 June 2009 was a loss of 2.90 cents per share, a decrease from 0.54 cents for 2008 financial year.

During the current year we have continued to deploy our strategy and have laid a significant platform to enable us to execute our goals effectively and efficiently. The year ahead brings with it challenges and opportunities that we are now well positioned to capitalise upon.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company in 2009.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The PAD received Class IIa approval by the TGA in August 2009. The financial impact of this event cannot be reliably estimated at this time.

No other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

a) the Company's operations in future financial years, or
b) the results of those operations in future financial years, or
c) the Company's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

We continue to proceed as outlined in the Prospectus:

- Developing and manufacturing our own instrument sets which will further enhance our marketing and sales capability;
- Continued new product development – Peripheral Access Device and others; and
- Protecting and licensing our intellectual property.

ENVIRONMENTAL REGULATION

The Company is not subject to significant environmental regulations.

INFORMATION ON DIRECTORS

Peter Kazacos B.E, B.Sc.
Chairman

Experience and expertise
Mr Kazacos has over 30 years experience in the IT industry. He founded KAZ in 1988 and led the Company over its 17-year history. Mr. Kazacos was responsible for guiding KAZ from a small IT services company in NSW to one of Asia Pacific's leading IT services and business process outsourcing service providers. KAZ grew from 350 employees at its inception, through its listing on the ASX in 2000, to over 4000 employees, as a fully owned subsidiary of Telstra. Prior to establishing KAZ, he held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Mr. Kazacos was the recipient of the inaugural, Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category. Mr. Kazacos was also inducted into the Hall of Fame for the 3rd Annual IT&T Awards in October 2004. This Award was in the category of "Champion of the vendor community". Most recently, Mr Kazacos was inducted into the Hall of Fame at the inaugural ARN IT Industry Awards Ceremony (September 2007). Mr Kazacos was also the recipient of the prestigious CSIRO Tony Benson Award for Individual Achievement in ICT at the 2008 iAwards. This award is presented in recognition of outstanding accomplishments of an individual in the Australian ICT industry.

He holds a Bachelor of Electrical Engineering and a Bachelor of Science (Applied Mathematics and Computer Science) from the University of New South Wales.

Other current directorships
Mr Kazacos holds a number of Executive Office positions, as below:
Director – PK Business Advantage
Board of Directors – Kazacos Industries and Kpower Pty Ltd
Board Director and Immediate Past Chairman – Australian Information Industry Association (AIIA)
Chairman – Roses Only
Chairman – Intelledox
Chairman – Neller Pty Ltd
Member of UNSW Centre for Innovation & Entrepreneurship Board
Member of CSIRO ICS Sector Advisory Council

Interests in shares and options
715,810 ordinary shares and 106,000 options over ordinary shares in ASDM.

Dr Gregory James Roger MB BS, M Eng (Res).
Chief Executive Officer

Experience and expertise
Associated Professor Dr Roger, following his Medical Degree at Sydney University and Internship at Royal North Shore Hospital, undertook a Masters degree in Engineering at Sydney University in order to start solving Medical Device design problems. Dr Roger went on to acquire a history of medical device innovation including co-designing and developing both the RCI screw, now sold through Smith and Nephew and the highly successful Active Knee prosthesis. He subsequently innovated a novel surface polishing and cleaning technique, which has significantly improved the expected life of joint replacement world wide. The company he founded to produce Medical Devices, ASDM has also helped the designs and inventions of Australian surgeons and inventors to achieve commercialisation. In 2004 Dr Roger received a Clunies Ross Award and in 2005 he received Warren Centre Hero of Innovation Award and was appointed Adjunct Associate Professor in the School of Aerospace, Mechanical & Mechatronic Engineering at the University of Sydney. In 2006, Engineers Australia Sydney Division awarded Dr Roger Entrepreneur of the Year. In 2007 Dr Roger was awarded Sydney University Faculty of Engineering's Alumnus of the Year.

Interests in shares and options
7,954,690 ordinary shares and 254,000 options over ordinary shares in ASDM.

Walter Kmet BComm., GDhthSrvMt, MBT, FAIM.
Non-Executive Director

Experience and expertise
Walter Kmet has over 20 years experience in the health industry in Australia, Asia and the United Kingdom. Walter was formerly Managing Director of HSA Group Limited, CEO of Nations Healthcare Limited, and held leadership positions with MIA Group Limited and Mayne Nickless Limited. Mr Kmet has worked closely with both public and private sector health systems and major international institutions, including Johns Hopkins Hospital and the National Health Service, in developing best practice in health care. He was responsible for Certification of the Jakarta based Jatinegara Hospital and Medical Center with ISO 9002 in 1997, the first time such Certification

was granted to a Hospital in the Republic of Indonesia. Walter works substantively with Little Company of Mary Health Care, and has been appointed Adjunct Associate Professor with the School of Medicine at the University of Queensland.

He has obtained a Bachelor of Commerce and Graduate Diploma in Health Services Management from the University of Newcastle, and Master in Business and Technology from University of New South Wales. Walter is a fellow of Australian Institute of Management.

Interests in shares and options

98,278 ordinary shares and 100,000 options over ordinary share in ASDM.

Richard Ulrick BA, LLB, Dip Fin Mgt, FCIS, CPA.
Company Secretary

Experience and expertise

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

Interests in shares and options

85,334 ordinary shares in ASDM.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2009, and the numbers of meetings attended by each director were:

			Meetings of committees			
	Board meetings		Nomination and remuneration		Audit	
	A	B	A	B	A	B
Peter Kazacos	11	11	2	2	5	5
Walter Kmet *	11	11	2	2	5	5
Gregory James Roger **	11	11	2	2	5	5

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

* = Attended meetings but is not a member of the Nomination & Remuneration Committee

** = Attended meetings but is not a member of the Audit & Risk Committee

REMUNERATION REPORT

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

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

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration (audited)

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

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

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

The remuneration structures take into account:

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

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

Executive directors' remuneration

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

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

Non-executive directors' remuneration

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

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

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

Non-executive Directors generally do not receive share options. However an allocation was made as part of the process to listing on the ASX of the Company's shares. Non-executive Directors may no longer opt to receive a percentage of their remuneration in ASDM shares. This was permitted prior to listing.

Fixed remuneration

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

Remuneration levels are reviewed annually by the Nomination & Remuneration Committee through a process that considers individual and overall performance of the company. In addition regard is had to information from external remuneration consultants to ensure senior executives' remuneration is competitive in the market place having regard to the size of ASDM and the fiscal constraints of a growing company.

Performance-linked remuneration

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

Short-term incentive (STI)

At this stage in ASDM's development, shareholder wealth is enhanced by the achievement of objectives in the development of the Company's products, within a framework of prudent financial management and consistent with the Company's annual business plan. ASDM's earnings have not been regarded as being the predominant component of enhancing shareholder wealth during the financial year ended 30 June 2009. Consequently, the Company's intended approach outlined below was varied to a limited extent with a consequence that $10,000 was paid in bonuses to senior executives as detailed later in this report.

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

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

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

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

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

Long-term incentives

The long-term incentive has been intended to be provided to key management personnel other than non-executive Directors as options over ordinary shares of the Company under the rules of the Employee Share Option Plan, see page 13 for further information.

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

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

However, recently advised possible legislative changes to the taxation treatment of executive options may adversely impact upon the grant of options as an appropriate means of providing long-term incentives when viewed from both the Company's and executives' perspective. Consequently, it may be in the interest of shareholders to change the means of providing a long-term incentive and the Board intends to consider the position when the basis of any legislation change is known.

Consequences of performance on shareholders' wealth

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

In considering the Company's performance and benefits for shareholders' wealth, the Nomination & Remuneration Committee will have regard to the Company's earnings and any dividends paid in respect of the current financial year and the previous four financial years together with share price performance since listing on the ASX.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Company (as defined in AASB 124 *Related Party Disclosures*) and specified executives of ASDM are set out in the following table.

The key management personnel of ASDM includes the directors as per pages 8 to 9 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- Natalia Belimova – Company Secretary (from 7 June 2007 – 7 September 2007)
- Richard Ulrick – Company Secretary (from 12 September 2007)
- Tom Milicevic – Chief Financial Officer (from 15 October 2007)
- Jari Hyvarinen – Chief Operating Officer (from 1 July 2008)

2009	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Long-service leave $	Options $	Total $
Non-executive directors							
Peter Kazacos	62,520	–	–	–	–	–	62,520
Walter Kmet	40,000	–	–	–	–	–	40,000
Sub-total non-executive directors	**102,520**	**–**	**–**	**–**	**–**	**–**	**102,520**
Executive directors							
Gregory James Roger	198,990	–	28,948	17,797	–	45,999	291,734
Other key management personnel							
Richard Ulrick	80,100	–	–	–	–	–	80,100
Tom Milicevic	174,352	–	–	15,527	–	24,724	214,603
Jari Hyvarinen (appointed 1 July 2008)	139,333	10,000	–	12,372	–	18,373	180,078
Total key management personnel compensation	**695,295**	**10,000**	**28,948**	**45,696**	**–**	**89,096**	**869,035**

2008	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Long-service leave $	Options $	Total $
Non-executive directors							
Peter Kazacos	60,000	–	–	–	–	39,146	99,146
Walter Kmet	20,000	–	–	–	–	56,930	76,930
Sub-total non-executive directors	**80,000**	**–**	**–**	**–**	**–**	**96,076**	**176,076**
Executive directors							
Gregory James Roger	197,421	–	14,429	17,659	5,279	45,999	280,787
Other key management personnel							
Richard Ulrick	87,253	–	–	–	–	–	87,253
Natalia Belimova	20,883	–	–	1,710	–	–	22,593
Tom Milicevic	119,768	20,000	–	10,779	–	15,444	165,991
Total key management personnel compensation	**505,325**	**20,000**	**14,429**	**30,148**	**5,279**	**157,519**	**732,700**

C Service agreements

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

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

Dr Gregory Roger as Chief Executive Officer: His term commenced on 9 May 2006 and ends on the later of 30 June 2012 and the expiration of three months' notice by either party. The initial remuneration payable to Dr Roger comprised base remuneration having a total cost to ASDM of $245,735 per annum (inclusive of mandatory superannuation contributions and any other benefits). The remuneration is reviewed annually. Dr Roger is entitled to receive, subject to shareholder approval, yearly grants of options related to achievement of budgeted EBITDA or any other performance criteria to be set by the Board and notified to him annually. The Company may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Dr Roger's services early. Dr Roger has undertaken not to engage in competitive conduct with ASDM for the term of the agreement and for a further period of up to 12 months thereafter.

Tom Milicevic as Chief Financial Officer: His term commenced on 15 October 2007 and may be terminated by either party on giving 3 months' notice. The initial remuneration payable to Mr Milicevic comprises base remuneration having a total cost to ASDM of $189,879 per annum (inclusive of mandatory superannuation contributions and any other benefits). The remuneration is reviewed annually. The Company may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Mr Milicevic's services early. Mr Milicevic has undertaken not to engage in competitive conduct with ASDM for the term of the agreement and for a further period of up to 12 months thereafter.

Jari Hyvarinen as Chief Operating Officer: His term commenced on 1 July 2008 and may be terminated by either party on giving 1 month notice. The initial remuneration payable to Mr Hyvarinen comprises base remuneration having a total cost to ASDM of $163,500 per annum (inclusive of mandatory superannuation contributions and any other benefits). The remuneration is reviewed annually. The Company may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Mr. Hyvarinen's services early.

D Share-based compensation

Options

The Company has established an Employee Share Option Plan approved by shareholders at an Extraordinary General Meeting held in May 2006. In the year ending 30 June 2009, key management personnel's long-term incentives will by way of participation in the Option Plan. This long-term incentive program aligns the interests of key management personnel more closely with those of ASDM shareholders and rewards sustained superior performance.

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

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

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
1 July 2007	30 June 2009	30 June 2012	$0.50	$0.36
1 July 2007	1 July 2007	5 December 2012	$0.50	$0.37
16 November 2007	16 November 2010	16 November 2013	$0.60	$0.37
30 November 2007	30 June 2009	30 June 2011	$0.60	$0.29

Name	Number of options granted during the year		Number of options vested during the year	
	2009	2008	**2009**	2008
Directors of ASDM				
Peter Kazacos	**–**	106,000	**–**	106,000
Gregory James Roger *	**250,000**	254,000	**254,000**	–
Walter Kmet	**–**	100,000	**–**	100,000
Other key management personnel of the Company				
Richard Ulrick	**–**	–	**–**	–
Tom Milicevic	**–**	200,000	**–**	–
Jari Hyvarinen	**–**	–	**–**	–

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

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.

Shares

Upon listing on the ASX of the Company's shares, the Company issued 106,688 shares to employees in lieu of bonuses. All these shares were issued at a price of $0.60 per share.

E Additional information

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on page 12 and this page, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The options vest after three years, provided the vesting conditions are met (see page 11 above). No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Cash bonus Paid %	Cash bonus Forfeited %	Options Year granted	Options Vested %	Options Forfeited %	Options Financial years in which options may vest	Options Minimum total value of grant yet to vest $	Options Maximum total value of grant yet to vest $
Gregory James Roger	–	100	2009	100	–	30/06/2009	45,499	–
	–	–	2009	–	100	–	–	–
	–	–	2008	–	–	30/06/2009	45,499	91,999
Tom Milicevic	–	100	2009	–	–	30/06/2011	34,072	74,240
	50	50	2008	–	–	30/06/2011	58,796	74,240
Jari Hyvarinen	25	75	2009	100	–	30/06/2009	18,373	–
	–	–	2008	–	–	–	–	–

Share-based compensation: Options

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Gregory James Roger	15.8%	0.37	0.50	–
Tom Milicevic	11.5%	0.37	–	–
Jari Hyvarinen	10.2%	0.29	0.60	–

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

SHARES UNDER OPTION

Unissued ordinary shares of ASDM under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
1 July 2007	30 June 2012	$0.50	254,000
1 July 2007	5 December 2012	$0.50	206,000
16 November 2007	16 November 2013	$0.60	200,000
30 November 2007	30 June 2011	$0.60	735,000
			1,395,000

INSURANCE OF OFFICERS

During the financial year, ASDM paid a premium of $19,912 to insure the directors and secretaries of the Company and its Australian based controlled entities, and the general managers of each of the divisions of the Company.

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

Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

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

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality 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*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the company, its related practices and non-related audit firms:

	2009 $	2008 $
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	**88,000**	86,700
Total remuneration for audit services	**88,000**	86,700
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	**2,200**	1,400
Due diligence services	**–**	177,845
Other services	**44,000**	12,000
Total remuneration for other assurance services	**46,200**	191,245
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	**33,689**	33,900
Tax consulting and tax advice	**4,539**	36,800
Due diligence services	**–**	70,140
Total remuneration for taxation services	**38,228**	140,840

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 page 18.

AUDITOR

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

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

Peter Kazacos
Director

Sydney
26 August 2009

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As lead auditor for the audit of Advanced Surgical Design & Manufacture Limited for the year ended 30 June 2009, 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.

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
26 August 2009

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

The Company has endorsed the updated *Corporate Governance Principles and Recommendations* released by the ASX Corporate Governance Council ("ASX Principles") and seeks to follow them to the extent that it is practicable having regard to the size and nature of its operations. All of the Recommendations have been followed apart from that part of Recommendation 4.2 requiring an audit committee to have three members.

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

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

THE BOARD OF DIRECTORS (THE "BOARD")

Board composition

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

The Company currently has three Directors: two non-executive Directors, Mr Peter Kazacos, the Chairman of the Board, and Mr Walter Kmet and one executive Director, Dr Greg Roger, the Chief Executive Officer. The experience and tenure of the Directors are set out in the Directors' report on pages 8-9. Both Mr Kazacos and Mr Kmet are considered independent by the Board. Consequently a majority of the Board are independent directors and the Chief Executive Officer and the Chairman are different people as required by good practice.

The Board composition has been considered appropriate as Directors combine knowledge of the Company's business and industry with experience in the commercial and regulatory requirements necessary for a listed company. However, the Board through its Nomination & Remuneration Committee is in the process of identifying a suitable candidate for appointment as an additional Director. This will enable the company to increase the membership of its Committees to three to accord with that outlined in the ASX Principles. Board members are committed to spending sufficient time to enable them to carry out their duties as Directors of the Company; any candidate will confirm that they have the necessary time to devote to their Board position prior to appointment.

Responsibilities

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

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

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

Directors' independence

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

- Holds less than five per cent of the voting shares of the company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the company;
- Has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member;
- Is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;

- Has no material contractual relationship with the Company or another group member other than as a Director of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

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

Director induction and education

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

Conflict of interests

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

Details of Director-related entity transactions with the Company are set out in Note 29 to the financial statements.

Independent professional advice and access to Company information

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

Corporate reporting

The Managing Director and the Chief Financial Officer give an annual written declaration to the Board that in their opinion the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001* the Company's financial statements and the notes to those statements, for the financial year comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. They have confirmed in writing to the Board that this declaration in relation to the 2008-09 financial year is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Board committees

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

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

The Board currently holds approximately twelve scheduled meetings each year, in addition to strategy and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise. Details of the number of meetings held by the Board, together with the number of meetings attended by each Director are contained on page 9.

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 and operational summary, financial report, and Company secretarial report which includes governance and compliance. Monthly actual results are reported against budgets approved by the Board. Board papers are circulated in advance and minutes kept of all meetings.

NOMINATION & REMUNERATION COMMITTEE

Composition

The Nomination & Remuneration Committee comprises the independent Chairman (Peter Kazacos) and Chief Executive Officer (Greg Roger). Each member has the expertise to enable the Committee to effectively discharge its mandate. Details of each Director's experience and background are outlined on pages 8-9 of the Directors' Report. Although the Committee comprises less than three members and half of the Committee is not independent, contrary to the suggestion contained in the ASX Principles, the Board is of the view that this has been appropriate given the size and composition of the Board and current size and complexity of the Company's business.

Meetings and reporting

The Nomination & Remuneration Committee meets a minimum two times per annum. Details of attendance at Committee Meetings are set out on page 9 in the table of Directors' meetings. All Committee minutes are tabled at Board meetings for review.

Responsibilities

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

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

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.

Performance assessment

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

New Directors

The Committee is responsible for identifying and recommending individuals qualified to become Directors having regard to the competencies identified which generally will include character, judgement and relevant experience. The terms and conditions of the appointment and retirement of non-executive Directors are set out in a letter of appointment, including expectations for attendance and preparation for all Board meetings, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

Executive performance assessment

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

Remuneration

Details of the remuneration of executives and Directors and the Company's remuneration objectives and policies are set out in the Remuneration Report on pages 9-15.

Audit & Risk Committee

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

Composition, Meetings and Reporting

The Audit & Risk Committee currently comprises Mr Walter Kmet and Mr Peter Kazacos who are both non-executive independent Directors. The Committee Chairman is Mr Walter Kmet who is not the Chairman of the Board. Each member has the expertise to enable the Committee to effectively discharge its mandate. Details of each Director's experience and background are outlined on pages 8-9 of the Directors' Report.

The Company does not comply with the recommendation contained in the ASX Principles that the Committee comprise at least three non-executive Directors in that the Board only has two non-executive Directors and they comprise the Committee. This is considered appropriate at this stage in the Company's development and has regard to the size of the Board and the Company's operations.

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

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

All Committee minutes are tabled at Board meetings for review.

Responsibilities

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

- Fulfilling the Company's accounting and financial reporting obligations;
- Maintaining an effective and efficient audit;
- The effectiveness of the internal control environment;
- Prudent management of financial and other risks; and
- Reviewing the effectiveness and efficiency of operations.

EXTERNAL AUDITORS

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

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

Selection and Rotation of Audit Partner

The appointment of auditor is put out to public tender no less than every 4 years. A minimum of three tenders will normally be considered by the Board. The terms of the tender cover audit in isolation and must not be co-mingled with other products and services that might be offered by the candidate.

The incumbent auditor is not restricted from tendering but should it do so and if the appointment is renewed the engagement partner cannot be the same engagement partner that was used in the final 2 years of the ending appointment. The application of this and similar requirements are not intended to bestow an advantage on larger audit practices but rather to help ensure maintenance of the integrity of the audit function. The maximum continuous period of time one audit group can act as auditor is 8 years.

RISK ASSESSMENT AND MANAGEMENT

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

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

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

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

CODE OF CONDUCT

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

TRADING IN GENERAL COMPANY SECURITIES BY DIRECTORS AND EMPLOYEES

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

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

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

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

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

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

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

FINANCIAL REPORT

This financial report covers Advanced Surgical Design & Manufacture Limited as an individual entity. The financial report is presented in the Australian currency.

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

Advanced Surgical Design & Manufacture Limited
Unit 2/12 Frederick Street
St Leonards NSW 2065

A description of the nature of the Company's operations and its principal activities is included in the directors' report on pages 6-17, which is not part of this financial report.

The financial report was authorised for issue by the directors on 26 August 2009. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.asdm.com.au

INCOME STATEMENT

For the year ended 30 June 2009

	Notes	2009 $	2008 $
Revenue from continuing operations			
Sale of goods	5	**6,187,581**	6,815,141
Other revenue from ordinary activities	5	**221,337**	279,686
		6,408,918	7,094,827
Other income	6	**2,857**	350
Expenses			
Cost of sales and purchases of consumables	7	**(3,259,168)**	(2,931,916)
Other expenses from ordinary activities			
Corporate and administration expenses	7	**(2,501,383)**	(2,152,526)
Quality and Research and development expenses	7	**(1,062,836)**	(956,678)
Sales and marketing expenses	7	**(1,125,873)**	(764,802)
Finance costs		**(99,947)**	(106,261)
(Loss)/profit before income tax		**(1,637,432)**	182,994
Income tax benefit/(expense)	8	**612,737**	(2,989)
(Loss)/profit for the year		**(1,024,695)**	180,005

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	35	**(2.90)**	0.54
Diluted earnings per share	35	**(2.90)**	0.52

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

BALANCE SHEET
As at 30 June 2009

	Notes	2009 $	2008 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**851,571**	1,524,251
Trade and other receivables	10	**1,144,668**	1,963,964
Inventories	11	**2,817,745**	2,653,072
Total current assets		**4,813,984**	6,141,287
Non-current assets			
Property, plant and equipment	12	**4,449,175**	4,227,515
Deferred tax assets	13	**1,140,408**	685,418
Intangible assets	14	**229,921**	277,117
Other non-current assets	15	**199,877**	248,390
Total non-current assets		**6,019,381**	5,438,440
Total assets		**10,833,365**	11,579,727
LIABILITIES			
Current liabilities			
Trade and other payables	16	**876,654**	962,510
Borrowings	17	**269,679**	706,504
Provisions	18	**78,080**	54,870
Total current liabilities		**1,224,413**	1,723,884
Non-current liabilities			
Borrowings	19	**787,423**	58,565
Deferred tax liabilities	20	**18,460**	116,351
Provisions	21	**348,920**	317,935
Total non-current liabilities		**1,154,803**	492,851
Total liabilities		**2,379,216**	2,216,735
Net assets		**8,454,149**	9,362,992
EQUITY			
Contributed equity	22	**8,980,313**	9,040,169
Reserves	23(a)	**488,860**	313,152
(Accumulated losses)/retained profits	23(b)	**(1,015,024)**	9,671
Total equity		**8,454,149**	9,362,992

The above balance sheet should be read in conjunction with the accompanying notes.

	Notes	Ordinary shares $	Reserves $	(Accumulated losses)/ retained earnings $	Total $
Balance at 1 July 2007		5,546,508	–	(170,334)	5,376,174
Profit for the year		–	–	180,005	180,005
Total recognised income and expense for the year		**–**	**–**	**180,005**	**180,005**
Equity settled transaction	22	40,000	–	–	40,000
Conversion of loans	22	2,075,000	–	–	2,075,000
Initial public offering	22	1,880,803	–	–	1,880,803
Share raising costs		(502,142)	–		(502,142)
Employee shares and share options	23	–	313,152	–	313,152
Balance at 30 June 2008		9,040,169	313,152	9,671	9,362,992
Balance at 1 July 2008		9,040,169	313,152	9,671	9,362,992
(Loss) for the year		–	–	(1,024,695)	(1,024,695)
Total recognised income and expense for the year		**–**	**–**	**(1,024,695)**	**(1,024,695)**
Share issue costs	22	(59,856)	–	–	(59,856)
Employee shares and share options	22	–	175,708	–	175,708
Balance at 30 June 2009		8,980,313	488,860	(1,015,024)	8,454,149

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

CASH FLOW STATEMENT

For the year ended 30 June 2009

	Notes	2009 $	2008 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**7,784,050**	7,474,731
Payments to suppliers and employees (inclusive of goods and services tax)		**(7,627,584)**	(6,448,589)
		156,466	1,026,142
Interest paid		**(99,947)**	(106,261)
Interest received		**69,198**	125,341
Income taxes refunded		**–**	19,163
Net cash inflow from operating activities	32	**125,717**	1,064,385
Cash flows from investing activities			
Payments for property, plant and equipment	12	**(1,014,761)**	(858,984)
Payments for intangible assets	14	**(98,028)**	(116,547)
Proceeds from sale of property, plant and equipment		**22,359**	82,768
Net cash (outflow) inflow from investing activities		**(1,090,430)**	(892,763)
Cash flows from financing activities			
Proceeds from issues of shares		**–**	1,418,661
Repayment of related party loans		**–**	(305,000)
Proceeds from borrowings		**457,720**	(153,594)
Finance lease payments		**(165,687)**	(372,592)
Net cash inflow from financing activities		**292,033**	587,475
Net (decrease) increase in cash and cash equivalents		**(672,680)**	759,097
Cash and cash equivalents at the beginning of the financial year		**1,524,251**	765,154
Cash and cash equivalents at end of year	9	**851,571**	1,524,251
Financing arrangements	19		
Non-cash financing and investing activities	33		

The above cash flow statement should be read in conjunction with the accompanying notes.

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS).

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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 3.

b) Going concern

As at 30 June 2009, the Company had capital reserves of $8.5 million and cash and cash equivalents of $851,571. The company had a considerable decrease in operating cashflows and experienced negative cashflows during the financial year, due to not meeting its budgeted growth targets. Despite the decline in cashflow, ASDM continues to invest in its property, plant and equipment to support its growth initiatives.

During the financial year ended 30 June 2009, ASDM secured $897,000 of additional borrowings and is securing an extension of its overdraft facility to $500,000 after year end which will assist with its domestic and international expansion plans.

ASDM has implemented the following initiatives for the financial impa 30 June 2010:

i) Internal expenditure reduction initiatives including reduction in headcount and overtime hours.

ii) Reduction in the production of stock and instrument sets and in the acquisition of raw materials.

iii) Improved working capital via a tighter focus on the collection of debtors and more efficient scheduling of work.

The ability of the Company to continue as a going concern beyond August 2010 is dependent upon the Company being successful in achieving its growth targets of ASDM's Active Knee and the PAD product sales. The PAD received Class IIa approval by the TGA after year end.

As a result of the above matters, the directors are of the view that the Company will continue as a going concern and, therefore, that ASDM will realise its assets and liabilities and commitments in the normal course of business and at the amounts stated in the financial report. The directors remain confident about the successful achievement of projected targets and therefore no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

c) Segment reporting

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

d) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

e) Revenue recognition

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

The Company 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 Company'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 Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

i) Sale of goods

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

ii) Lease income

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

iii) Interest income

Interest income is recognised on a time proportion basis. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

g) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term.

h) Impairment of assets

Intangible assets have a definite useful life and 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

i) Cash and cash equivalents

For cash flow statement presentation purposes, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

j) Trade receivables

Trade receivables are recognised at fair value less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Company 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 30 days overdue) are considered indicators that the trade receivable is 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. The amount of the provision is recognised in the income statement in other expenses.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expense in the income statement.

k) Inventories

i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour, the use of machinery and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

l) Property, plant and equipment

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

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

Manufacturing plant and equipment	2-20 years
Office furniture and equipment	2.5-13.33 years
Leasehold improvements	2.5-10 years
Leased plant and equipment	3 years
Instrument sets	5 years

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

m) Intangible assets

i) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The Company has only research and other development expenditure to date.

ii) Patents and website costs

Patents and website costs are recognised at the cost of acquisition and carried at cost less accumulated amortisation and any impairment losses. These are amortised over the period in which their benefits are expected to be realised on a straight-line basis, which varies from 10 to 20 years.

n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

p) Provisions

Provisions for are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

q) Employee benefits

i) Wages, salaries and annual leave

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

ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

iii) 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 33.

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

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

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

r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority is included with other receivables or payables in the balance sheet.

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 taxation authority, are presented as operating cash flows.

t) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* (effective from 1 January 2009)

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Company has not yet adopted AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (effective from 1 January 2009)

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. No material impact on the financial report of the Company is expected.

iii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009)

A revised AASB 101 was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company intends to apply the revised standard from 1 July 2009.

iv) AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations*

AASB 2008-1 was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Company's share-based payments.

v) Improvements to Australian Accounting Standards: AASB 2008-5 and AASB 2008-6

In July 2008, the AASB issued a number of improvements to existing Australian Accounting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2009, except for some changes to AASB 5 *Non-current Assets Held for Sale and Discontinued operations* regarding the sale of the controlling interest in a subsidiary which will apply from 1 July 2009. The Company will apply the revised standards from 1 July 2009. No adjustments are expected to be necessary as the result of applying the revised rules.

2 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. The Company 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 and aging analysis for credit risk.

Risk management is carried out by financial management of the Company. The financial management identifies, evaluates and hedges financial risks in accordance with policies set by the board.

The company holds the following financial instruments:

	2009 $	2008 $
Financial assets		
Cash and cash equivalents	**851,571**	1,524,251
Trade and other receivables	**1,086,020**	1,898,590
	1,937,591	3,422,841

	2009 $	2008 $
Financial liabilities		
Trade and other payable	**876,654**	962,510
Borrowings	**832,610**	374,890
Lease liability	**224,492**	390,179
	1,933,756	1,727,579

a) Market risk

i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and British pound.

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

The Company has policies which manage the foreign exchange risk exposure of the Company and they are monitored by the board.

The Company's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2009		30 June 2008	
	GBP $	USD $	GBP $	USD $
Trade receivables	–	**30,884**	323,037	4,368
Trade payables	–	**(14,537)**	(19,930)	(49,873)
Net exposure	–	**16,347**	303,107	(45,505)

Entity sensitivity

Based on the financial instruments for cash and cash equivalents held in GBP held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the British Pound with all other variables held constant, the entity's post-tax profit for the year would have been $76,619 higher/$62,688 lower, (2008: $74,370 higher/$68,848 lower), mainly as a result of foreign exchange gains/losses on translation of British Pound denominated financial instruments as detailed in the above table. Profit is more sensitive to movements in the Australian dollar/British Pound exchange rates in 2009 than 2008 because of increased amount of British Pound denominated cash.

The group's exposure to other foreign exchange movements is not material.

ii) Price risk

The Company is not exposed to equity securities price risk.

iii) Cash flow and fair value interest rate risk

ASDM's main interest rate risk arises from liabilities bearing variable interest rates as the Company intends to hold fixed rate liabilities to maturity.

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

	30 June 2009		30 June 2008	
	Weighted average interest rate %	**Balance $**	Weighted average interest rate %	Balance $
Cash and cash equivalents	**3.7%**	851,571	8.3%	1,524,251
Net exposure to cash flow interest rate risk		851,571		1,524,251

Sensitivity

At 30 June 2009, if interest rates had changed by –/+100 basis points from the year end rates with all other variables held constant, post-tax profit for the year would have been $8,516 lower/higher (2008: $17,121), mainly as a result of higher/lower interest income from cash and cash equivalents.

b) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Generally, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Major transactions for the strategic purposes of establishing a market presence are provided with extended terms and are approved by the board.

The majority of our customers are hospitals and credit limits are not deemed appropriate in managing our relationships in this operating segment.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets being $1,937,591 (2008: $3,422,841).

For some trade receivables the Company may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate credit facility and the ability to close out market positions.

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Surplus funds are only invested in instruments that are tradable in highly liquid markets.

The Company has access to undrawn borrowing facilities which may be drawn at any time.

Financing arrangements

The Company had access to the following undrawn borrowing facilities at the reporting date:

	2009 $	2008 $
Floating rate		
Expiring within one year (bank overdraft and bill facility)	**250,000**	250,000

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

Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2009	Less than 6 months $	6–12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying Amount (assets)/ liabilities $
Non-interest bearing							
Trade payables	231,483	23,678	–	–	–	255,161	255,161
Other payables to be settled by cash/ financial assets	507,194	114,299	–	–	–	621,493	621,493
Total non-interest bearing	738,677	137,977	–	–	–	876,654	876,654
Fixed rate							
Bank loans/ Hire purchase (current)	77,098	77,098	–	–	–	154,196	154,196
Lease (current)	115,483	–	–	–	–	115,483	115,483
Bank loans/ Hire purchase (non-current)	–	–	177,921	609,502	–	787,423	787,423
Total fixed rate	192,581	77,098	177,921	609,502	–	1,057,102	1,057,102

At 30 June 2008	Less than 6 months $	6–12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows	Carrying Amount (assets)/ liabilities $
Non-interest bearing							
Trade payables	415,258	–	–	–	–	415,258	415,258
Other payables to be settled by cash/ financial assets	395,008	152,244	–	–	–	547,252	547,252
Total non-interest bearing	810,266	152,244	–	–	–	962,510	962,510
Fixed rate							
Hire purchase	24,739	350,151	–	–	–	374,890	374,890
Lease (current)	55,269	110,538	165,807	–	–	331,614	331,614
Lease (non-current)	–	–	–	37,155	21,410	58,565	58,565
Total fixed rate	80,008	460,689	165,807	37,155	21,410	765,069	765,069

All liabilities are non-derivatives.

d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Useful lives of property, plant and equipment and intangibles

The Company has self assessed the useful life of property plant and equipment and intangibles, in accordance with the accounting policy stated in note 1(m).These useful lives are based on industry experience and knowledge of the key management personnel of the Company.

ii) Inventories

The Company currently has made the estimates with regards to the standard costing used to value finished goods and work in progress. This involves calculating the average machine and employee cost per hour and average time required to complete each stage of the manufacturing process. The Company has also estimated the overhead allocation between administration expense and costs of goods sold based on the floor space of the buildings held under operating lease.

iii) Impairment of property, plant and equipment

The Company tests annually whether property, plant and equipment suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 12 for details of these assumptions and the potential impact of changes to the assumptions.

4 SEGMENT INFORMATION

Description of segments

Business segments

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

Geographical segments

The entity operates in one geographical segment being Australia.

5 REVENUE

	2009 $	2008 $
From continuing operations		
Sales revenue		
Sale of goods	**6,187,581**	6,815,141
Other revenue		
Sub-lease rentals	**152,139**	154,345
Interest	**69,198**	125,341
	221,337	279,686
	6,408,918	7,094,827

6 OTHER INCOME

Other income	**2,857**	350

7 EXPENSES

Classification of expenses by nature		
Purchases and cost of sales	**1,670,319**	1,387,057
Employee benefits expense	**2,594,302**	2,496,835
Depreciation and amortisation expense	**803,145**	638,301
Other expenses	**307,352**	366,274
Professional fees	**761,116**	554,150
Research and development expense	**180,885**	200,769
Travel expense	**230,342**	68,245
Rent expense	**668,638**	647,241
Insurance expense	**209,856**	199,357
Capital raising expense	**–**	6,006
Sales and marketing expense	**407,627**	223,802
Writedown of property, plant and equipment and intangibles	**115,678**	17,885
	7,949,260	6,805,922

Classification of expenses by function:		
Cost of sales and purchases of consumables	**3,259,168**	2,931,916
Corporate and administration expenses	**2,501,383**	2,152,526
Quality and Research and development expenses	**1,062,836**	956,678
Sales and marketing expenses	**1,125,873**	764,802
	7,949,260	6,805,922

	2009 $	2008 $
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**471,445**	395,357
Furniture and fittings and computer hardware and software	**67,447**	63,800
Motor vehicles	**8,516**	9,738
Leasehold improvements	**27,850**	34,303
Make good	**60,000**	20,000
Instrument sets	**138,341**	71,178
Total depreciation	**773,599**	594,376
Amortisation		
Patents and trademarks	**19,825**	19,825
Other intangible assets	**9,721**	11,158
Total amortisation	**29,546**	30,983
Finance costs		
Interest and finance charges paid/payable	**99,947**	106,261
Net (gain) loss on disposal of property, plant and equipment	**(2,857)**	1,177
Rental expense relating to operating leases		
Minimum lease payments	**668,638**	647,241
Foreign exchange gains and losses		
Net foreign exchange losses	**8,907**	1,192
Share-based payment expense	**175,708**	313,152
Write-down of property, plant and equipment and intangibles		
Patents	**115,678**	17,885

8 INCOME TAX EXPENSE

	2009 $	2008 $
a) Income tax (benefit)/expense		
Current tax	–	45,106
Deferred tax	**(612,737)**	(42,117)
	(612,737)	2,989
Deferred income tax (revenue) included in income tax expense comprises:		
(Increase) in deferred tax assets (note 13)	**(514,846)**	(101,331)
(Decrease) increase in deferred tax liabilities (note 20)	**(97,891)**	59,214
	(612,737)	(42,117)
b) Numerical reconciliation of income tax (benefit)/expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**(1,637,432)**	182,994
Tax expense at the Australian tax rate of 30% (2008 – 30%)	**(491,230)**	54,898
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**52,712**	93,946
Concessional research and development expenditure treatment	**(74,333)**	(28,890)
Investment allowance	**(42,596)**	–
Sundry items	**(57,290)**	(57,777)
Benefit of tax losses of prior years recouped	–	(59,188)
Total income tax (benefit)/expense	**(612,737)**	2,989
c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited to equity		
Net deferred tax – debited/(credited) directly to equity (notes 13 and 20)	**59,856**	(172,836)
	59,856	(172,836)
d) Tax losses		
Unused tax losses	**720,061**	215,130
Potential tax benefit @ 30%	**216,018**	64,539

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**851,571**	1,524,251

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

b) Interest rate risk exposure

The Company's exposure to interest rate risk is discussed in note 2.

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

c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2009 $	2008 $
Trade receivables	**1,085,570**	1,893,071
Other receivables	**450**	5,519
Prepayments	**58,648**	65,374
	1,144,668	1,963,964

a) Impaired trade receivables

As at 30 June 2009 the directors were not aware of any receivables that were impaired (2008 – Nil).

b) Past due but not impaired

As of 30 June 2009, trade receivables of $299,880 (2008 – $408,970) were past due but not impaired. These relate to number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

Overdue		
30 to 60 days	**235,330**	362,031
60 to 120 days	**28,062**	18,609
Over 120 days	**36,488**	28,330
	299,880	408,970

The other classes within trade and other receivables do not contain impaired assets and are not past due.
The Company does not hold any collateral in relation to these receivables.

c) Foreign exchange and interest rate risk

Information about the Company's exposure to exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

d) Fair value and credit risk

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

11 CURRENT ASSETS – INVENTORIES

Raw materials at cost	**737,340**	663,728
Work in progress at cost	**414,265**	540,201
Finished goods at lower of cost and net realisable value	**1,666,140**	1,449,143
	2,817,745	2,653,072

a) Inventory expense

Write-off of inventories are recognised as an expense during the year ended 30 June 2009 amounted to $20,490 (2008: $122,160). The expense has been included in 'cost of sales' in the income statement.

Write-downs of inventories to net realisable value recognised during the year ended 30 June 2009 amounted to $85,000 (2008: $nil).

12 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment $	Furniture and fixtures computer hardware and software $	Motor vehicles $	Leasehold improve-ments $	Make good $	Instrument sets $	Total $
At 1 July 2007							
Cost	6,586,523	448,330	38,280	262,769	–	640,715	7,976,617
Accumulated depreciation	(3,469,654)	(315,439)	(11,193)	(84,851)	–	(296,210)	(4,177,347)
Net book amount	3,116,869	132,891	27,087	177,918	–	344,505	3,799,270
Year ended 30 June 2008							
Opening net book amount	3,116,869	132,891	27,087	177,918	–	344,505	3,799,270
Additions	114,438	303,446	–	15,435	250,918	404,585	1,088,822
Disposals	(1,422)	–	–	–	–	(64,779)	(66,201)
Transfers (out)/in	(123,092)	123,092	–	–	–	–	–
Depreciation charge	(395,357)	(63,800)	(9,738)	(34,303)	(20,000)	(71,178)	(594,376)
Closing net book amount	2,711,436	495,629	17,349	159,050	230,918	613,133	4,227,515
At 1 July 2008							
Cost	6,514,847	881,454	38,280	278,204	250,918	980,521	8,944,224
Accumulated depreciation	(3,803,411)	(385,825)	(20,931)	(119,154)	(20,000)	(367,388)	(4,716,709)
Net book amount	2,711,436	495,629	17,349	159,050	230,918	613,133	4,227,515
Year ended 30 June 2009							
Opening net book amount	2,711,436	495,629	17,349	159,050	230,918	613,133	4,227,515
Additions	128,312	167,738	–	550	32,054	686,107	1,014,761
Disposals	–	(662)	(8,833)	–	–	(10,007)	(19,502)
Depreciation charge	(471,445)	(67,447)	(8,516)	(27,850)	(60,000)	(138,341)	(773,599)
Closing net book amount	2,368,303	595,258	–	131,750	202,972	1,150,892	4,449,175
At 30 June 2009							
Cost	6,588,167	1,103,273	–	278,754	282,972	1,656,622	9,909,788
Accumulated depreciation	(4,219,864)	(508,015)	–	(147,004)	(80,000)	(505,730)	(5,460,613)
Net book amount	2,368,303	595,258	–	131,750	202,972	1,150,892	4,449,175

a) Leased assets

Plant and equipment includes the following amounts where the Company is a lessee under a finance lease:

	2009 $	2008 $
Leased equipment		
Cost	**1,751,084**	2,878,091
Accumulated depreciation	**(616,047)**	(1,223,468)
Net book amount	**1,135,037**	1,654,623

b) Key assumptions used for value-in-use calculations

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

	Gross margin *		Growth rate **		Discount rate ***	
CGU	**2009 %**	2008 %	**2009 %**	2008 %	**2009 %**	2008 %
Property, plant and equipment	**62.1**	65.2	**4.8**	4.8	**12.0**	12.0

* Budgeted gross margin

** Weighted average growth rate used to extrapolate cash flows beyond the budget period

*** In performing the value-in-use calculations for each CGU, the company has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The same pre-tax discount rates were applied in 2008 and 2009. The movements in the equivalent pre-tax discount rates between 2008 and 2009 reflect changes in the anticipated timing of future cash flows.

These assumptions have been used for the analysis of the CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments and the countries in which they operate.

c) Impairment charge

There was no impairment charge on property, plant and equipment during the year (2008: $nil).

13 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:	**2009 $**	2008 $
Tax losses	**720,061**	215,130
Other provisions and accruals	**257,082**	247,167
Share issue expenses	**163,265**	223,121
Net deferred tax assets	**1,140,408**	685,418
Movements:		
Opening balance at 1 July	**685,418**	411,251
Credited to the income statement (note 8)	**514,846**	101,331
(Charged)/credited to equity (note 8)	**(59,856)**	172,836
Closing balance at 30 June	**1,140,408**	685,418
Deferred tax assets to be recovered within 12 months	**–**	–
Deferred tax assets to be recovered after more than 12 months	**1,140,408**	685,418
	1,140,408	685,418

14 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Patents, trademarks and other rights $	Website design $	Total $
At 1 July 2007			
Cost	211,532	41,744	253,276
Accumulated amortisation	(20,776)	(23,063)	(43,839)
Net book amount	190,756	18,681	209,437
Year ended 30 June 2008			
Opening net book amount	190,756	18,681	209,437
Additions	94,106	22,442	116,548
Impairment charge	(17,885)	–	(17,885)
Amortisation charge	(19,825)	(11,158)	(30,983)
Closing net book amount	247,152	29,965	277,117
At 30 June 2008			
Cost	287,752	64,186	351,938
Accumulated amortisation	(40,600)	(34,221)	(74,821)
Net book amount	247,152	29,965	277,117
Year ended 30 June 2009			
Opening net book amount	247,152	29,965	277,117
Additions	96,622	1,406	98,028
Impairment charge	(115,678)	–	(115,678)
Amortisation charge	(19,825)	(9,721)	(29,546)
Closing net book amount	208,271	21,650	229,921
At 30 June 2009			
Cost	363,179	65,591	428,770
Accumulated amortisation	(154,908)	(43,941)	(198,849)
Net book amount	208,271	21,650	229,921

15 NON-CURRENT ASSETS – OTHER NON-CURRENT ASSETS

	2009 $	2008 $
Other receivables	**199,877**	248,390

16 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2009 $	2008 $
Trade payables	**255,161**	415,258
Accrued expenses	**292,421**	172,552
Other payables*	**329,072**	374,700
	876,654	962,510

* Other payables includes employee entitlements, superannuation payable and PAYG withholding.

a) Risk exposure

Information about the Company's exposure to foreign exchange risk is provided in note 2.

17 CURRENT LIABILITIES – BORROWINGS

Secured		
Bank loans	**154,196**	374,890
Lease liabilities (note 28)	**115,483**	331,614
Total current borrowings	**269,679**	706,504

a) Risk exposures

Details of the Company's exposure to risks arising from current and non-current borrowings are set out in note 2.

b) Fair value disclosures

Details of the fair value of borrowings for the Company are set out in note 19.

c) Security

Information about the security relating to each of the secured liabilities and further information on the bank loans are set out in note 19.

18 CURRENT LIABILITIES – PROVISIONS

Employee benefits – long service leave	**78,080**	54,870

19 NON-CURRENT LIABILITIES – BORROWINGS

Secured		
Bank loans	**678,414**	–
Lease liabilities (note 28)	**109,009**	58,565
Total secured non-current borrowings	**787,423**	58,565

a) Secured liabilities and assets pledged as security

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

Bank loan	**832,610**	374,890
Lease liabilities	**224,492**	390,179
Total secured liabilities	**1,057,102**	765,069

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

	Notes	2009 $	2008 $
Current			
Floating charge			
Cash and cash equivalents	9	**851,571**	1,524,251
Receivables	10	**1,085,570**	1,893,071
Total current assets pledged as security		**1,937,141**	3,417,322
Non-current			
Finance lease			
Plant and equipment	12	**1,135,037**	1,654,623
Total assets pledged as security		**3,072,178**	5,071,945

b) Fair value

The carrying amounts and fair values of borrowings at balance date are the same for all categories.

	At 30 June 2009		At 30 June 2008	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Bank loans	**832,610**	**832,610**	374,890	374,890
Lease liabilities	**224,492**	**224,492**	390,179	390,179
	1,057,102	**1,057,102**	765,069	765,069

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant.

c) Risk exposures

Information about the Company's exposure to interest rate and foreign currency changes is provided in note 2.

20 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	2009 $	2008 $
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**18,460**	114,018
Prepayments	–	678
Interest receivable	–	1,655
Net deferred tax liabilities	**18,460**	116,351
Movements:		
Opening balance at 1 July	**116,351**	57,137
(Credited)/charged to the income statement (note 8)	**(97,891)**	59,214
Closing balance at 30 June	**18,460**	116,351
Deferred tax liabilities to be settled within 12 months	–	2,333
Deferred tax liabilities to be settled after more than 12 months	**18,460**	114,018
	18,460	116,351

21 NON-CURRENT LIABILITIES – PROVISIONS

	2009 $	2008 $
Employee benefits – long service leave	**65,948**	67,017
Make good provision	**282,972**	250,918
	348,920	317,935

a) Make good provision

The Company is required to restore the leased premises to their original condition at the end of the lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised and are amortised over the shorter of the term of the lease or the useful life of the assets.

	2009 Make good provision $	2008 Make good provision $
Non-current		
Carrying amount at start of year	250,918	–
Charged to the income statement		
additional provisions recognised	32,054	250,918
Carrying amount at end of year	282,972	250,918

22 CONTRIBUTED EQUITY

	2009 Shares	2008 Shares	2009 $	2008 $
a) Share capital				
Ordinary shares				
Fully paid	**35,298,996**	35,298,996	**8,980,313**	9,040,169

b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$
1 July 2007	Opening balance	27,827,636		5,546,508
25 July 2007	Equity settled transaction	80,000	$0.50	40,000
16 August 2007	Conversion of loans	4,150,000	$0.50	2,075,000
5 December 2007	Grant of employee shares	106,688	$0.60	–
5 December 2007	Initial public offering	3,134,672	$0.60	1,880,803
	Less: Transaction costs arising on share issue including tax effect	–		(502,142)
30 June 2008	Balance	35,298,996		9,040,169
1 July 2008	Opening balance	35,298,996		9,040,169
	Less: Tax effect on transaction costs arising on share issue			(59,856)
30 June 2009	Balance	35,298,996		8,980,313

c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Ordinary shares do not have a par value.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

d) Capital risk management

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

The Company's strategy is to use equity to finance its projects. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	2009 $	2008 $
Total borrowings (notes: 16, 17, 19)	**1,933,756**	1,727,579
Less: cash and cash equivalents (note: 9)	**(851,571)**	(1,524,251)
Net debt	**1,082,185**	203,328
Total equity	**8,454,149**	9,362,992
Total capital	**9,536,334**	9,566,320
Gearing ratio	**11.3%**	2.1%

23 RESERVES AND (ACCUMULATED LOSSES)/RETAINED PROFITS

a) Reserves

Share-based payments reserve	**488,860**	313,152

Movements:

Share-based payments reserve		
Balance 1 July	**313,152**	–
Option expense	**175,708**	249,139
Employee share plan expense	**–**	64,013
Balance 30 June	**488,860**	313,152

b) (Accumulated losses)/retained profits

Movements in (accumulated losses)/retained profits were as follows:		
Opening balance	**9,671**	(170,334)
Net (loss)/profit for the year	**(1,024,695)**	180,005
Balance 30 June	**(1,015,024)**	9,671

c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise:

- the fair value of options issued to employees but not exercised
- the fair value of shares issued to employees

24 FRANKING CREDITS

No dividends have been declared for 2009 (2008 – $nil).

	2009 $	2008 $
Franking credits available for subsequent financial years based on a tax rate of 30% (2008 – 30%)	**320,477**	320,477

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

a) franking credits that will arise from the payment of the amount of the provision for income tax
b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

25 KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Directors

The following persons were directors of ASDM during the financial year:

i) Executive directors

Gregory Roger, Chief Executive Officerr

ii) Non-executive directors

Peter Kazacos
Walter Kmet

b) Other key management personnel

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

Name	Position	
Richard Ulrick	Company Secretary	
Tom Milicevic	Chief Financial Officer	
Jari Hyvarinen	Chief Operating Officer	Appointed 1 July 2008

All of the above persons were also key management persons during the year ended 30 June 2009 unless otherwise stated.

c) Key management personnel compensation

	2009 $	2008 $
Short-term employee benefits	**734,243**	539,754
Post-employment benefits	**45,696**	30,148
Long-term benefits	**–**	5,279
Share-based payments	**89,096**	157,519
	869,035	732,700

The Company has taken advantage of the relief provided by *Corporations Regulations* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 9 to 13.

d) Equity instrument disclosures relating to key management personnel

i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of ASDM and other key management personnel of the Company, including their personally related parties, are set out below.

2009 Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of ASDM							
Peter Kazacos	106,000	–	–	–	106,000	106,000	–
Gregory James Roger*	254,000	250,000	–	(250,000)	254,000	254,000	–
Walter Kmet	100,000	–	–	–	100,000	100,000	–
Other key management personnel of the Company							
Richard Ulrick	–	–	–	–	–	–	–
Tom Milicevic	200,000	–	–	–	200,000	–	200,000
Jari Hyvarinen	99,000	–	–	–	99,000	99,000	–

2008 Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of ASDM							
Peter Kazacos	–	106,000	–	–	106,000	106,000	–
Gregory James Roger	–	254,000	–	–	254,000	–	254,000
Walter Kmet	–	100,000	–	–	100,000	100,000	–
Other key management personnel of the Company							
Richard Ulrick	–	–	–	–	–	–	–
Tom Milicevic	–	200,000	–	–	200,000	–	200,000
Jari Hyvarinen	–	99,000	–	–	99,000	–	99,000

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

ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of ASDM and other key management personnel of the Company, including their personally related parties, are set out below.

2009 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Ordinary shares				
Peter Kazacos	632,142	–	83,668	715,810
Gregory James Roger	7,954,690	–	–	7,954,690
Walter Kmet	98,278	–	–	98,278
Richard Ulrick	34,334	–	51,000	85,334
Tom Milicevic	50,001	–	–	50,001
Jari Hyvarinen	8,668	–	–	8,668

2008 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Ordinary shares				
Peter Kazacos	572,000	–	60,142	632,142
Gregory James Roger	7,946,190	–	8,500	7,954,690
Walter Kmet	18,278	–	80,000	98,278
Richard Ulrick	–	–	34,334	34,334
Tom Milicevic	–	–	50,001	50,001
Jari Hyvarinen	3,334	–	5,334	8,668
Peter Housden (resigned 8 August 2007)	72,000	–	(72,000)	–

e) Loans from key management personnel

Details of shareholder loans made to the Company from directors of ASDM and other key management personnel of the Company, including their personally related parties, are set out below.

i) Aggregates for key management personnel

	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Number of loans with the company at the end of the year $
2009	**–**	**–**	**–**	**–**	**–**
2008	2,380,000	33,320	–	–	–

f) Other transactions with key management personnel

During the period ended 30 June 2009 ASDM has executed transactions with Peter Kazacos Business Advantage Pty Ltd ("PKBA"), a company that is associated with the non-executive director Peter Kazacos.

During the period the company sought tenders from a number of Information Technology parties to refresh its information systems architecture. Once completed an agreement would follow whereby the successful party would then be awarded the maintenance and support services contract. After considering three proposals and seeking external expert advice, the board determined that the PKBA solution was the most appropriate for ASDM.

The total contract price included hardware, software and installation for $143,186. Transactions relating to PKBA are set out in note 29(c).

26 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	2009 $	2008 $
a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	**88,000**	86,700
Total remuneration for audit services	**88,000**	86,700
b) Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm		
Audit of regulatory returns	**2,200**	1,400
Due diligence services	–	177,845
Other services	**44,000**	12,000
Total remuneration for audit-related services	**46,200**	191,245
c) Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services	**33,689**	33,900
Tax consulting and tax advice	**4,539**	36,800
Due diligence services	–	70,140
Total remuneration for taxation services	**38,228**	140,840
Total remuneration of non-PricewaterhouseCoopers audit firm	**172,428**	418,785

27 CONTINGENCIES

Contingent liabilities

The directors are not aware of any material contingent liabilities existing at the end of the financial year.

28 COMMITMENTS

i) Operating leases

The Company leases various premises under non-cancellable operating leases expiring within one year. The leases have renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**694,923**	547,472
Later than one year but not later than five years	**2,038,064**	2,205,802
Commitments not recognised in the financial statements	**2,732,987**	2,753,274
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**105,795**	246,855
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements	**105,795**	246,855

	2009 $	2008 $

ii) Finance leases

The Company leases various plant and equipment with a carrying amount of $1,135,037 (2008: $1,654,623) under finance leases expiring within one to three years.

Commitments in relation to finance leases are payable as follows:		
Within one year	**121,770**	351,139
Later than one year but not later than five years	**136,379**	62,627
Minimum lease payments	**258,149**	413,766
Less future finance charges	**(33,662)**	(23,587)
Recognised as a liability	**224,487**	390,179
Representing lease liabilities:		
Current (note 17)	**115,483**	331,614
Non-current (note 19)	**109,009**	58,565
	224,492	390,179

The weighted average interest rate implicit in the leases is 1.5% (2008 – 9.18%).

29 RELATED PARTY TRANSACTIONS

a) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: Peter Kazacos, Gregory Roger and Walter Kmet. All of these persons were also directors during the year ended 30 June 2009.

b) Key management personnel

Disclosure relating to key management personnel are set out in note 25.

c) Transactions with related parties

Purchases of goods		
Purchases of computer hardware, software and installation	**143,186**	–
Purchases of computer equipment	**21,577**	–
Other transactions		
Fees for maintenance and support services	**35,350**	–

30 ECONOMIC DEPENDENCY

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

31 EVENTS OCCURRING AFTER THE REPORTING PERIOD

The PAD received Class IIa approval by the TGA in August 2009. The financial impact of this event cannot be reliably estimated at this time.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the company or economic entity, the results of those operations or the state of affairs of the company or economic entity in subsequent financial years.

32 RECONCILIATION OF (LOSS)/PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 $	2008 $
(Loss)/profit for the year	**(1,024,695)**	180,005
Depreciation and amortisation	**803,145**	614,201
Impairment of intangible assets	**115,678**	17,885
Non-cash employee benefits expense – share-based payments	**175,708**	313,152
Net (gain)/loss on sale of non-current assets	**(2,857)**	1,177
Write-down of stock	**105,490**	122,160
Non-cash tax effect on transaction costs arising on share issue	**(59,856)**	–
Change in operating assets and liabilities		
Decrease/(increase) in trade debtors	**807,501**	(308,662)
(Increase) in inventories	**(270,163)**	(67,973)
Decrease in current tax assets	**–**	44,310
(Increase) in deferred tax assets	**(454,990)**	(274,167)
Decrease/(increase) in other operating assets	**60,308**	(43,129)
(Decrease)/increase in trade creditors	**(160,097)**	260,930
Increase/(decrease) in other operating liabilities	**74,241**	(25,268)
(Decrease)/increase in deferred tax liabilities	**(97,891)**	59,214
Increase in other provisions	**54,195**	170,550
Net cash inflow from operating activities	**125,717**	1,064,385

Payments to suppliers and employees (inclusive of goods and services tax) of $270,500 that are related to self-constructed property, plant and equipment are classified as cashflows from investing activities.

33 NON-CASH INVESTING AND FINANCING ACTIVITIES

Acquisition of plant and equipment by means of finance leases	**–**	179,624

34 SHARE-BASED PAYMENTS

a) Employee Option Plan

The company has established an Employee Share Option Plan approved by shareholders at an Extraordinary General Meeting held in May 2006. In the year ending 30 June 2009, key management personnel's long-term incentives will by way of participation in the Option Plan. This long-term incentive program aligns the interests of key management personnel more closely with those of ASDM shareholders and rewards sustained superior performance.

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

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

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

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

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
2009								
01/07/07	30/06/12	$0.50	254,000	–	–	–	254,000	254,000
01/07/07	05/12/12	$0.50	206,000	–	–	–	206,000	206,000
16/11/07	16/11/13	$0.60	200,000	–	–	–	200,000	–
30/11/07	30/06/11	$0.60	1,023,000	–	–	(288,000)	735,000	735,000
12/11/08*	07/09/11	$0.60	–	250,000	–	(250,000)	–	–
Total			1,683,000	250,000	–	(538,000)	1,395,000	1,195,000
Weighted average exercise price			$0.57	$0.60	$–	$0.60	$0.57	$0.56

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
2008								
01/07/07	30/06/12	$0.50	–	254,000	–	–	254,000	–
01/07/07	05/12/12	$0.50	–	206,000	–	–	206,000	206,000
16/11/07	16/11/13	$0.60	–	200,000	–	–	200,000	–
30/11/07	30/06/11	$0.60	–	1,089,000	–	(66,000)	1,023,000	–
Total			–	1,749,000	–	(66,000)	1,683,000	206,000
Weighted average exercise price			$–	$0.57	$–	$0.60	$0.57	$0.50

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

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.17 years (2008 – 3.5 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 60 cents per option. 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.

No options that did not lapse were granted in 2009. The model inputs for options granted during the year ended 30 June 2008 included:

a) consideration received on granting: nil
b) vesting criteria: directors options vested immediately while all remaining options vest on continued employment and time conditions
c) vesting period: 18 months – 3 years
d) exercisable period after vesting: 2 – 5 years

e) exercise price: $0.60
f) grant date: various – see table above
g) expiry date: various – see table above
h) share price at grant date: $0.50 and $0.60
i) expected price volatility of the company's shares: 60%
j) expected dividend yield: nil
k) risk-free interest rate: 6%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

b) Employee share scheme

Upon listing on the ASX of the Company's shares in December 2007, the Company issued 106,667 shares to employees in lieu of bonuses. All these shares were issued at a price of $0.60 per share.

	2009 Number	2008 Number
Number of shares issued under the plan to participating employees during the year	–	106,688

c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2009 $	2008 $
Options issued under employee option plan	**175,708**	249,139
Shares issued to employees via Initial Public Offering	–	64,013
	175,708	313,152

35 EARNINGS PER SHARE

a) Basic earnings per share

(Loss)/profit from continuing operations attributable to the ordinary equity holders of the company	**(1,024,695)**	180,005
(Loss)/profit attributable to the ordinary equity holders of the company	**(1,024,695)**	180,005

b) Diluted earnings per share

(Loss)/profit from continuing operations attributable to the ordinary equity holders of the company	**(1,024,695)**	180,005
(Loss)/profit attributable to the ordinary equity holders of the company	**(1,024,695)**	180,005

c) Reconciliations of earnings used in calculating earnings per share

Basic and diluted earnings per share

(Loss)/profit from continuing operations	**(1,024,695)**	180,005
(Loss)/profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(1,024,695)**	180,005

d) Weighted average number of shares used as the denominator

	2009 Number	2008 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**35,298,996**	33,361,332
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	–	1,191,282
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**35,298,996**	34,552,614

e) Information concerning the classification of securities

i) Options

Options granted to employees under the ASDM Employee Option Plan for year ended 30 June 2009 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. Details relating to the options are set out in note 34.

In the directors' opinion:

a) the financial statements and notes set out on pages 24 to 59 are in accordance with the *Corporations Act 2001*, including:

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

   ii) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Peter Kazacos
Director

Sydney
26 August 2009

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Report on the financial report

We have audited the accompanying financial report of Advanced Surgical Design & Manufacture Limited (the Company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

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

    i) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

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

b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9-15 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
26 August 2009

Liability limited by a scheme approved under Professional Standards Legislation *i) The distribution of shareholdings was as follows:*

Ordinary Shares

No. of	Number of Holders	Number of Shares
1 – 1,000	13	8,633
1,001 – 5,000	169	574,132
5,001 – 10,000	109	967,524
10,001 – 100,000	94	3,038,754
100,001 and over	27	30,709,953
Total	**412**	**35,298,996**

There were 13 holders of less than a marketable parcel of ordinary shares.

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

	Name	% Held	Number of Ordinary Shares
1.	Cryptych Pty Ltd	21.82	7,702,856
2.	Marie Caroll & Dawson Caroll	15.97	5,636,285
3.	Peter Welsh	12.67	4,473,685
4.	Welsh Superannuation Pty Limited	7.37	2,600,000
5.	Mergin Investments Pty Ltd <M & V Cross Super Fund>	6.61	2,332,857
6.	Thomas James Carroll	2.83	1,000,000
7.	Kenneth Campbell	2.83	1,000,000
8.	Misty Hills Nominees Pty Ltd	2.53	892,857
9.	Cassidy Investments Pty Limited	1.62	572,140
10.	Destin Pty Limited	1.62	572,000
11.	Mr John Catherwood Young & Mrs Corinne Girard Young <Cartesia Super Fund A/C>	1.23	435,000
12.	Simon Roberts	0.88	309,358
13.	Citicorp Nominees Pty Limited	0.88	309,218
14.	Leslie Harry Cross	0.85	300,000
15.	John O'Meara & Margaret O'Meara	0.85	300,000
16.	Desmond J Bokor Pty Limited	0.81	286,000
17.	Waugoola Pty Ltd <Wood Super Fund>	0.81	286,000
18.	Rosemary Joanna Pittar	0.81	285,031
19.	Greg J Roger	0.68	240,000
20.	Oakwork Pty Limited	0.68	239,470
Total		**84.10**	**29,772,757**

iii) The names of substantial shareholders and the number of equity securities in which they have an interest as notified to the Company are as follows:

Name	Number of Ordinary Shares
Cryptych Pty Ltd and Gregory James Roger	7,946,190
Peter Welsh and Welsh Superannuation Pty Limited	7,064,285
Marie Caroll & Dawson Caroll	5,636,285
Mergin Investments Pty Ltd	2,322,857

iv) Of the ordinary shares on issue, 16,774,830 are being held in escrow until 5 December 2009.

v) Unquoted equity securities:

	Number of Holders	Number Held
Options issued under the Company's Employee Share Option Plan, exercisable at 60 cents and expiring 30 June 2011	17	735,000
Options issued to Tom Milicevic under the Company's Employee Share Option Plan, exercisable at 60 cents and expiring 16 November 2013 (escrowed until 5 December 2009)	1	200,000
Options issued to Greg Roger under the Company's Employee Share Option Plan, exercisable at 50 cents and expiring 30 June 2012 (escrowed until 5 December 2009)	1	254,000
Options issued to Peter Kazacos, exercisable at 50 cents expiring 5 December 2012 (escrowed until 5 December 2009)	1	106,000
Options issued to Walter Kmet, exercisable at 50 cents expiring 5 December 2012 (escrowed until 5 December 2009)	1	100,000

vi) Voting rights

a) 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 shall have one vote for each share represented.

b) Option: No voting rights

vii) Share buy-back

Advanced Surgical Design & Manufacture Limited has not undertaken an on-market buy-back during the last financial year.

viii) Enquiries about your shareholding

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

ix) Shareholder communications

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

CORPORATE DIRECTORY

Directors	Peter Kazacos B.E, B.Sc *Chairman* Gregory James Roger MB BS, M Eng (Res) *Chief Executive Officer.* Walter Kmet BComm., GDhthSrvMt, MBT, FAIM
Secretary	Richard Ulrick BA, LLB, Dip Fin Mgt, FCIS, CPA
Notice of annual general meeting	The annual general meeting of Advanced Surgical Design & Manufacture Limited
will be held at	ASDM's principal registered office
time	11.00 am
date	27 November 2009
	A formal notice of meeting will be issued closer to the meeting
Principal registered office in Australia	Unit 2/12 Frederick Street St Leonards NSW 2065
Share and debenture register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street Sydney NSW 2000
Solicitors	Watson Mangioni Level 13, 50 Carrington Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia PO Box 327 Silverwater NSW 2128
Patent attorneys	**Australia** FB Rice Level 23, 44 Market Street Sydney NSW 2000 **United States of America** Jones Day 51 Louisiana Avenue, N.W. Washington, D.C. 20001–2113
Stock exchange listings	Advanced Surgical Design & Manufacture Limited shares are listed on the Australian Stock Exchange ("AMT").
Website address	www.asdm.com.au

ASDM

ADVANCED SURGICAL DESIGN & MANUFACTURE