

**Advanced Surgical Design &
Manufacture Limited**

ACN 066 281 132

**Interim financial report
for the half-year ended 31 December
2008**

Advanced Surgical Design & Manufacture Limited ACN 066 281 132

Interim financial report - 31 December 2008

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Directors' report

Your directors present their report on the company, Advanced Surgical Design & Manufacture Limited, for the half-year ended 31 December 2008.

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

P Kazacos	B.E, B.Sc
G Roger	MB BS, M Eng (Res)
W Kmet	BComm, GDhthSrvMt, MBT, FAIM

Review of operations

A summary of revenues and results for the half-year is set out below:

	31 December 2008 \$'000	31 December 2007 \$'000
Revenue from continuing operations	2,689	2,672
Loss before tax	(1,406)	(384)
Loss after income tax attributable to members of Advanced Surgical Design and Manufacture Limited	(956)	(259)

Revenue

Total revenue for the half year was \$2.82m (2007 half-year: \$2.80m) representing a slight increase over the same period last year. During the period ASDM has continued to develop and invest in its new markets both domestically and in Europe.

Historical trading patterns have continued in this half-year and at this stage there is no reason to suggest that they will not continue with an expectation that stronger revenue levels will be derived in the second half of the financial year.

Operating loss

The loss after tax for the half-year was \$0.956m (2007 half-year: (\$0.259m)). As was highlighted in the Chairman's address at the 2008 Annual General Meeting, this operating loss reflects the investment in the continued rollout of our strategy of establishing a presence in the UK and further enhancing our position in the Australian orthopaedic market. We continue to develop innovative products within the medical devices area such as the Peripheral Access Device. This investment had enabled us to fulfil our obligations to All Vascular and the attainment of a CE Mark for the device which is well on track. This will provide ASDM with an additional revenue stream.

Cash Position

During the period ASDM has invested significantly in stock and new instrument sets required for this expansion, as was foreshadowed in our 2007 Prospectus. Outlays incurred include the following:

- Set up costs associated with establishing a sales force, training and continued market development in Victoria and enhancing of the distribution channels in the UK - \$0.5m;
- Continued investment in research and development with the Peripheral Access Device ("PAD") and other new product developments of \$150k, including the assistance in the establishment of a clinical centre of excellence in Europe; and
- Additional investment in raw materials \$100k to accommodate the manufacture of additional instrument set to underpin growth.

As a result our cash position at 31 December 2008 of \$0.4m (30 June 2008: \$1.5m) reflects these initiatives. It is expected based on historical trading patterns and contract agreements the cash balance at the financial year end 30 June 2009 will recover.

Vascular Peripheral Access Device (PAD)

The Peripheral Access Device (PAD) initiative is in two main areas:

- (a) The development of the device itself; and
- (b) the support of the trial of hyperperfusion.

The device development has progressed well with the completion of the Pilot Trial. Plans are well advanced for the Hyperperfusion trial to be expanded to the next 25 patients, with the trial to be carried out at Royal North Shore Hospital. It is anticipated that the results with these patients, if conforming to the same pattern of results seen with the 18 patients to date, will support the use of this groundbreaking new treatment in concert with the PAD device. The clinical trial in Europe is ongoing.

Summary

ASDM continues to be regarded as an innovative and flexible participant in the highly competitive medical devices industry. We are able to maintain and embark on our growth strategy through our ability to offer flexibility, adaptability and innovation to our customers against global and domestic players. As we move into our second year as a listed company, our strategy of listing on the ASX has raised our internal and external standards allowing us to have a greater competitive advantage as we respond to innovators and capital markets.

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 3.

Rounding of amounts

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

Auditor

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

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



P Kazacos
Chairman

Sydney NSW
25 February 2009

PricewaterhouseCoopers
ABN 52 780 433 757

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

Auditor's Independence Declaration

As lead auditor for the review of Advanced Surgical Design & Manufacture Limited for the half year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been:

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

(b) no contraventions of any applicable code of professional conduct in relation to the review.
This declaration is in respect of Advanced Surgical Design & Manufacture Limited.



Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
25 February 2009

Advanced Surgical Design & Manufacture Limited ACN 066 281 132

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Advanced Surgical Design & Manufacture Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Advanced Surgical Design & Manufacture Limited
Income statement
For the half-year ended 31 December 2008

	Half-year	
Notes	31 December 2008 \$'000	31 December 2007 \$'000
Revenue from continuing operations		
Sale of goods	2,689	2,672
Other revenue from ordinary activities	135	131
	2,824	2,803
Expenses		
Cost of sales and purchases of consumables	(1,589)	(1,475)
Corporate and administration expenses	(1,184)	(860)
Quality and Research and development expenses	(649)	(506)
Sales and marketing expenses	(757)	(265)
Finance costs	(51)	(81)
Loss before income tax	(1,406)	(384)
Income tax benefit	450	125
Loss from continuing operations	(956)	(259)
Loss is attributable to:		
Equity holders of Advanced Surgical Design & Manufacture Limited	(956)	(259)
	Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:		
Basic (loss) per share	(2.7)	(0.8)
Diluted (loss) per share	(2.5)	(0.8)

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

Advanced Surgical Design & Manufacture Limited
Balance sheet
As at 31 December 2008

	Notes	31 December 2008 \$'000	30 June 2008 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		401	1,524
Trade and other receivables		1,401	1,964
Inventories		3,258	2,710
Other current assets		<u>55</u>	<u>-</u>
Total current assets		<u>5,115</u>	<u>6,198</u>
Non-current assets			
Property, plant and equipment		3,983	4,171
Deferred tax assets		1,087	685
Intangible assets		305	277
Other non-current assets		<u>238</u>	<u>248</u>
Total non-current assets		<u>5,613</u>	<u>5,381</u>
Total assets		<u>10,728</u>	<u>11,579</u>
LIABILITIES			
Current liabilities			
Trade and other payables		1,121	962
Borrowings		293	706
Provisions		<u>150</u>	<u>55</u>
Total current liabilities		<u>1,564</u>	<u>1,723</u>
Non-current liabilities			
Borrowings		249	59
Deferred tax liabilities		101	116
Provisions		<u>326</u>	<u>318</u>
Total non-current liabilities		<u>676</u>	<u>493</u>
Total liabilities		<u>2,240</u>	<u>2,216</u>
Net assets		<u>8,488</u>	<u>9,363</u>
EQUITY			
Contributed equity		9,008	9,040
Reserves	5	426	313
Retained profits		<u>(946)</u>	<u>10</u>
Total equity		<u>8,488</u>	<u>9,363</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of changes in equity
For the half-year ended 31 December 2008

Notes	Ordinary shares \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2007	<u>5,546</u>	<u>-</u>	<u>(170)</u>	<u>5,376</u>
Loss for period	-	-	(259)	(259)
Contributions of equity	<u>3,379</u>	<u>200</u>	<u>-</u>	<u>3,579</u>
Balance at 31 December 2007	<u>8,925</u>	<u>200</u>	<u>(429)</u>	<u>8,696</u>
Balance at 1 July 2008	<u>9,040</u>	<u>313</u>	<u>10</u>	<u>9,363</u>
Loss for period	-	-	(956)	(956)
Contributions of equity	<u>(32)</u>	<u>113</u>	<u>-</u>	<u>81</u>
Balance at 31 December 2008	<u>9,008</u>	<u>426</u>	<u>(946)</u>	<u>8,488</u>

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

Advanced Surgical Design & Manufacture Limited
Cash flow statement
For the half-year ended 31 December 2008

	Half-year	
	31 December 2008 \$'000	31 December 2007 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	3,710	3,596
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(4,469)</u>	<u>(3,302)</u>
	(759)	294
Interest received	46	25
Interest paid	(3)	(50)
Income taxes paid	-	-
Net cash (outflow) inflow from operating activities	<u>(716)</u>	<u>269</u>
 Cash flows from investing activities		
Payments for property, plant and equipment	(137)	(199)
Payments for intangible assets	<u>(3)</u>	<u>(56)</u>
Net cash (outflow) from investing activities	<u>(140)</u>	<u>(255)</u>
 Cash flows from financing activities		
Proceeds from issues of shares	-	1,922
Repayment of related party loans	-	(305)
Share issue transaction costs	-	(348)
Repayment of borrowings	(80)	(111)
Finance lease payments	<u>(187)</u>	<u>(208)</u>
Net cash (outflow) inflow from financing activities	<u>(267)</u>	<u>950</u>
 Net (decrease) increase in cash and cash equivalents	(1,123)	964
Cash and cash equivalents at the beginning of the half-year	<u>1,524</u>	<u>765</u>
Cash and cash equivalents at end of half-year	<u>401</u>	<u>1,729</u>

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

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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 for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Advanced Surgical Design and Manufacture Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

2 Segment information

(a) 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.

3 Expenses

	Half-year	
	31 December	30 June
	2008	2008
	\$'000	\$'000

Loss before income tax includes the following specific expenses classified by nature

<i>Depreciation and amortisation</i>	373	302
<i>Employee benefits expense</i>	1,526	1,162
<i>Share based payments</i>	113	200
<i>External quality and research and development</i>	96	165

4 Equity securities issued

	31 December 2008 Shares	31 December 2007 Shares	31 December 2008 \$'000	31 December 2007 \$'000
Issue of ordinary shares during the half-year				
Equity settled transactions	-	80	-	40
Conversion of loans	-	4,150	-	2,075
Capital raising	-	3,134	-	1,881
Employee shares issued for nil consideration	-	107	-	-
	-	7,471	-	3,996
Movements shares during the period				
Equity issued during the period			-	3,996

5 Reserves

		31 December 2008 \$'000	30 June 2008 \$'000
Reserves			
Share-based payments reserve		426	313
		31 December 2008 \$'000	30 June 2008 \$'000
Movements:			
<i>Share-based payments reserve</i>			
Opening balance		313	-
Option expense		113	249
Employee share plan expense		-	64
Closing balance		426	313

6 Dividends

		Half-year 31 December 2008 \$'000	31 December 2007 \$'000
Ordinary shares			
Dividends provided for during the period		-	-

7 Contingencies

The directors are not aware of any material contingent liabilities existing at the end of the reporting period.

8 Events occurring after the balance sheet date

There has not arisen in the interval between the reporting date and the date of this financial report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the entity, the result of operations, or the state of affairs of the entity in future financial periods.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 12 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 31 December 2008 and of its performance for the half-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

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



P Kazacos
Chairman

Sydney NSW
25 February 2009

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Advanced Surgical Design and Manufacture Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of [changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Advanced Surgical Design and Manufacture Limited.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 30 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Advanced Surgical Design and Manufacture Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of company for the half-year ended 31 December 2008 included on Advanced Surgical Design and Manufacture Limited's web site. The company's directors are responsible for the integrity of the Advanced Surgical Design and Manufacture Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

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

- (a) giving a true and fair view of the entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PricewaterhouseCoopers



Manoj Santiago
Partner

Sydney
25 February 2009