

APPENDIX 4D HALF-YEAR REPORT

1. Company details

Name of entity:	Advanced Surgical Design & Manufacture Limited
ABN:	71 066 281 132
Reporting period:	Half-year ended 31 December 2011
Previous corresponding period:	Half-year ended 31 December 2010

2. Results for announcement to the market

Revenues from ordinary activities	up	17.4%	to	\$ 3,965,000
Loss from ordinary activities after tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	down	64.6%	to	\$(575,000)
Loss for the period attributable to the owners of Advanced Surgical Design & Manufacture Limited	down	64.6%	to	\$(575,000)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to \$575,000 (31 December 2010: \$1,623,000).

Refer to directors report attached for further information.

3. NTA backing

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary security	9.63 cents	14.30 cents

4. Control gained over entities

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

Date control gained

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

\$ -

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

\$ -

5. Loss of control over entities

Name of entities (or group of entities)	Not applicable.	
Date control lost		
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities during the period (where material)		\$ -
Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)		\$ -

6. Dividends

Current period

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

Previous corresponding period

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

7. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

Not applicable.

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

8. Details of associates and joint venture entities

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

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Interim Report of Advanced Surgical Design & Manufacture Limited for the half-year ended 31 December 2011 is attached.

12. Signed



Signed: _____

Date: 24 February 2012

Peter Kazacos
Director
Sydney

Advanced Surgical Design & Manufacture Limited
ABN 71 066 281 132

Interim Report - 31 December 2011

Advanced Surgical Design & Manufacture Limited
Directors' report
31 December 2011

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Advanced Surgical Design & Manufacture Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the half-year ended 31 December 2011.

Directors

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

Peter Kazacos - Chairman
Gregory James Roger
John O'Meara
Peter Welsh (appointed on 22 November 2011)

Principal activities

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$575,000 (31 December 2010: \$1,623,000).

Revenue and margin

Total revenue for the half-year ended 31 December 2011 was \$3.965 million, representing an increase of 17.4%.

During the period the consolidated entity continued to develop and enhance its manufacturing processes added to this was the stronger mix of domestic revenue which assisted in yielding a stronger margin for the half-year ended 31 December 2011 of 58%, an increase of 3% on prior period.

The rollout out of the product acquisition strategy continued during the period with the addition of the Orthofix Spinal Implant range. The Orthofix product range in conjunction with the consolidated entity's Orthopaedic products provide a range of revenue opportunities across the consolidated entity's sales channels.

The Total Active Knee remains the only total knee product in the Australian marketplace with a long and successful clinical history now approaching its 20th year.

Corporate and administration costs

Corporate and administration expenses include accounting, administration, legal, insurance and other public company costs. Administration expenses for the half-year were \$1.1 million (Dec 2010: \$1.4 million). Administration expenses in the previous period was higher due to professional costs associated with the strategic review undertaken by the consolidated entity.

Quality and research and development expenses

Research and development expenses decreased by approximately \$0.4 million in the first half of fiscal 2011 to \$0.7 million (Dec 2010: \$1.1 million). During the half-year the primary research and development focus was on the orthopaedic product range as the Vascular unit's core project, the Peripheral Access Device ('PAD') was undergoing clinical trials. The consolidated entity's exposure to the project has reduced as the development costs have been largely completed.

Sales and marketing

Sales and marketing costs remained constant at \$0.9 million (Dec 10: \$0.9 million). With the addition of the Orthofix Spinal range there will be an increase in sales and marketing costs and activities in the second half of the year to manage the sales effort and launch of the range. Key events such as the Spine Society Annual Scientific Meeting in Sydney in April will have an ASDM – Orthofix presence for the first time.

Advanced Surgical Design & Manufacture Limited
Directors' report
31 December 2011

Operating loss

The loss after tax for the half-year was \$0.575 million (Dec 2010: loss of \$1.6 million) an improvement of \$1.1 million. The improvement is due to the exceptional efforts of the sales team in increasing sales, the execution of the product diversification strategy and a disciplined cost management process during a difficult economic cycle.

Cash position

The overdraft cash balance at 31 December 2011 was \$0.3 million, with a significantly improved operating cash flow performance during the period compared to the same period in the previous year. Sales across the major categories

Outlook

With the on-going rollout of the new product acquisition strategy, continued focus on strong sales channel development and an efficient and lean manufacturing environment, the consolidated entity is working towards achieving its aim of being a strong and profitable medical device company. The fundamentals are in place and 2011/12 financial year has started well with some positive achievements but it still remains a challenging time.

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

Significant changes in the state of affairs

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

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

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

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors



Peter Kazacos
Director

24 February 2012
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Advanced Surgical Design & Manufacture Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, the only contravention of :

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

is set out below

Due to auditor rotation requirements, while being ineligible to do so I played a significant role in the review of Advanced Design & Manufacture Limited for the half-year ended 31 December 2011. On becoming aware of this matter I ceased acting in this role within four days which allowed me to complete the review.

These matters were identified as part of our on-going quality control system. All reasonable steps were undertaken to ensure that these matters were resolved as soon as possible. I report that all matters will have been resolved by the immediate appointment of a new lead auditor and in doing so do not believe these matters have impacted my objectivity and impartiality for the purpose of this review.

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

A handwritten signature in black ink, appearing to read 'Manoj Santiago', is written over a light grey grid background.

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
24 February 2012

Advanced Surgical Design & Manufacture Limited
Financial report
For the half-year ended 31 December 2011

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General information

The financial report covers Advanced Surgical Design & Manufacture Limited as a consolidated entity consisting of Advanced Surgical Design & Manufacture Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Advanced Surgical Design & Manufacture Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

Unit 2
12 Frederick Street
St Leonards NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 24 February 2012. The directors have the power to amend and reissue the financial report.

Advanced Surgical Design & Manufacture Limited
Statement of comprehensive income
For the half-year ended 31 December 2011

		Consolidated	
	Note	31/12/11	31/12/10
		\$'000	\$'000
Revenue	3	3,965	3,377
Other income		1	4
Expenses			
Cost of sales and purchases of consumables		(1,658)	(1,535)
Corporate and administration expenses		(1,132)	(1,383)
Quality and research and development expenses		(692)	(1,097)
Sales and marketing expense		(908)	(883)
Finance costs		(151)	(106)
Loss before income tax expense		(575)	(1,623)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Advanced Surgical Design & Manufacture Limited		(575)	(1,623)
Other comprehensive income			
Foreign currency translation		2	79
Other comprehensive income for the half-year, net of tax		2	79
Total comprehensive income for the half-year attributable to the owners of Advanced Surgical Design & Manufacture Limited		(573)	(1,544)
		Cents	Cents
Basic earnings per share	7	(1.63)	(4.60)
Diluted earnings per share	7	(1.63)	(4.60)

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

Advanced Surgical Design & Manufacture Limited
Statement of financial position
As at 31 December 2011

		Consolidated	
	Note	31/12/11	30/06/11
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	4	12	16
Trade and other receivables		1,251	1,062
Inventories		3,957	2,868
Total current assets		<u>5,220</u>	<u>3,946</u>
Non-current assets			
Receivables		187	217
Property, plant and equipment		3,239	3,682
Intangibles		276	278
Deferred tax		462	462
Total non-current assets		<u>4,164</u>	<u>4,639</u>
Total assets		<u>9,384</u>	<u>8,585</u>
Liabilities			
Current liabilities			
Trade and other payables		2,213	1,200
Borrowings		827	651
Provisions		206	183
Total current liabilities		<u>3,246</u>	<u>2,034</u>
Non-current liabilities			
Borrowings		1,757	1,979
Provisions		328	325
Other		379	-
Total non-current liabilities		<u>2,464</u>	<u>2,304</u>
Total liabilities		<u>5,710</u>	<u>4,338</u>
Net assets		<u>3,674</u>	<u>4,247</u>
Equity			
Contributed equity		8,855	8,855
Reserves		570	568
Accumulated losses		<u>(5,751)</u>	<u>(5,176)</u>
Total equity		<u>3,674</u>	<u>4,247</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of changes in equity
For the half-year ended 31 December 2011

	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2010	8,915	481	(1,911)	7,485
Other comprehensive income for the half-year, net of tax	-	79	-	79
Loss after income tax expense for the half-year	-	-	(1,623)	(1,623)
Total comprehensive income for the half-year	-	79	(1,623)	(1,544)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	3	-	3
Balance at 31 December 2010	<u>8,915</u>	<u>563</u>	<u>(3,534)</u>	<u>5,944</u>
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2011	8,855	568	(5,176)	4,247
Other comprehensive income for the half-year, net of tax	-	2	-	2
Loss after income tax expense for the half-year	-	-	(575)	(575)
Total comprehensive income for the half-year	-	2	(575)	(573)
Balance at 31 December 2011	<u>8,855</u>	<u>570</u>	<u>(5,751)</u>	<u>3,674</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of cash flows
For the half-year ended 31 December 2011

Note	Consolidated	
	31/12/11 \$'000	31/12/10 \$'000
Cash flows from operating activities		
	4,038	3,658
	(3,799)	(4,795)
	<u>239</u>	<u>(1,137)</u>
Interest received	6	12
Interest and other finance costs paid	(151)	(106)
	<u>94</u>	<u>(1,231)</u>
Cash flows from investing activities		
	(34)	(186)
	(18)	(33)
	<u>(52)</u>	<u>(219)</u>
Cash flows from financing activities		
	-	1,600
	(179)	(868)
	(30)	(42)
	<u>(209)</u>	<u>690</u>
	(167)	(760)
	<u>(172)</u>	<u>723</u>
	<u>(339)</u>	<u>(37)</u>
4		

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2011

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2009-12 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2009-12 from 1 July 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which had no major impact on the requirements of the amended pronouncements. The main amendment was to AASB 8 'Operating Segments' and required an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-4 amendments from 1 July 2011. The amendments made numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarified that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provided guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2011

Note 1. Significant accounting policies (continued)

AASB 2010-5 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2010-5 amendments from 1 July 2011. The amendments made numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.

AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets

The consolidated entity has applied AASB 2010-6 amendments from 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The amendments will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

The consolidated entity has applied AASB 2011-1 amendments from 1 July 2011. The amendments make changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRS') and harmonisation between Australian and New Zealand Standards. The amendments remove certain guidance and definitions from Australian Accounting Standards for conformity of drafting with International Financial Reporting Standards but without any intention to change requirements.

AASB 124 Related Party Disclosures (December 2009)

The consolidated entity has applied AASB 124 (revised) from 1 July 2011. The revised standard simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. A subsidiary and an associate with the same investor are related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2011

Note 1. Significant accounting policies (continued)

Going concern

As at 31 December 2011, the consolidated entity had a cash overdraft of \$339,000 and net assets totalling \$3,744,000. The consolidated entity's net cash inflows from operating activities for the half-year to 31 December 2011 was \$94,000 and the loss after tax was \$503,000 (Net operating cash outflow for the half-year to 31 December 2010 was \$1,231,000 and the loss after tax was \$1,544,000).

Commencing in the previous financial year and continuing this financial year, the consolidated entity implemented the following initiatives which assisted in improving the operating cash flows:

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

The consolidated entity entered into a number of new distribution agreements since 30 June 2011 to expand its product range and improve revenue. As part of these arrangements, the consolidated entity has committed to acquiring approximately \$1 million of stock. Payment for the ordered stock is due by June 2012. Discussions are underway with a financial institution to provide the consolidated entity with a loan to fund this payment given the expected lead time in selling the stock and the expected timings of future cashflows.

Subsequent to 31 December 2011, the consolidated entity has negotiated an extension of the \$250,000 loan facility with a related party which is available for drawdown and is not repayable until 31 December 2013.

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

- i) Negotiating and obtaining additional debt from their existing financier or securing an alternate form of funding to cover the \$1 million stock repayment due in June 2012; and
- ii) Achieving projected sales growth from its additional investment in sales staff and new products.

As a result of these matters, there is material uncertainty whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. The directors believe that the consolidated entity will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2011. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Note 2. Operating segments

Identification of reportable operating segments

The consolidated entity operates in one segment being the sale, manufacture and design of surgical implants. This is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2011

Note 3. Revenue

	Consolidated	
	31/12/11	31/12/10
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	3,854	3,289
<i>Other revenue</i>		
Interest	6	12
Sub-lease rentals	105	76
	<u>111</u>	<u>88</u>
Revenue	<u><u>3,965</u></u>	<u><u>3,377</u></u>

Note 4. Current assets - cash and cash equivalents

	Consolidated	
	31/12/11	30/06/11
	\$'000	\$'000
Cash on hand	12	16

	Consolidated	
	31/12/11	31/12/10
	\$'000	\$'000
<i>Reconciliation to cash and cash equivalents at the end of the financial half-year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial half-year as shown in the statement of cash flows as follows:		
Cash and cash equivalents	12	-
Bank overdraft	(351)	(37)
Balance as per statement of cash flows	<u><u>(339)</u></u>	<u><u>(37)</u></u>

Note 5. Equity - dividends

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

Note 6. Events after the reporting period

Subsequent to 31 December 2011, the consolidated entity has negotiated an extension of the \$250,000 loan facility with a related party which is available for drawdown and is not repayable until 31 December 2013.

No other matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
31 December 2011

Note 7. Earnings per share

	Consolidated	
	31/12/11	31/12/10
	\$'000	\$'000
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	<u>(575)</u>	<u>(1,623)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>35,298,996</u>	<u>35,298,996</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>35,298,996</u>	<u>35,298,996</u>
	Cents	Cents
Basic earnings per share	(1.63)	(4.60)
Diluted earnings per share	(1.63)	(4.60)

Options granted to employees under the Employee Option Plan for the current and previous periods are not included in the determination of diluted earnings per share because they are anti-dilutive for the half-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.

Advanced Surgical Design & Manufacture Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Peter Kazacos
Director

24 February 2012
Sydney



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Advanced Surgical Design & Manufacture Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Advanced Surgical Design & Manufacture Limited Group (the consolidated entity). The consolidated entity comprises both Advanced Surgical Design & Manufacture Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Advanced Surgical Design & Manufacture, 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001* other than as set out in the Auditor's Independence Declaration dated 24 February 2012.

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

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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 Advanced Surgical Design & Manufacture Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1 in the half-year financial report, which indicates that the company's continuation as a going concern depends on its success in obtaining additional funding. This condition, along with other matters as set out in Note 1, indicate the existence of the material uncertainty that may cast significant doubt about the company's ability to continue as a going concern, and, therefore the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the half-year report.

The PricewaterhouseCoopers logo, featuring a stylized 'P' followed by the text 'PRICEWATERHOUSECOOPERS' in a handwritten-style font.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Manoj Santiago'.

Manoj Santiago
Partner

Sydney
24 February 2012