



Advanced Surgical Design & Manufacture Limited
ABN 71 066 281 132

Annual Report - 30 June 2013

Advanced Surgical Design & Manufacture Limited
Directors' report
30 June 2013

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Advanced Surgical Design & Manufacture Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2013.

Directors

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

Peter Kazacos - Chairman
 John O'Meara
 Peter Welsh

Principal activities

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

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$571,000 (30 June 2012: \$173,000).

Revenue

Total revenue for the year ended 30 June 2013 ("FY13") was \$7.1m, representing a decrease of 11% from the 2012 financial year ("FY12").

This was an encouraging result considering two major core product customers retired during the period. The execution of our portfolio strategy of products allowed us to minimise the overall impact and maintain a solid base for future growth. We continue to see growth in our recently acquired product lines which balance out the portfolio.

During the financial year, the Active Total Knee Replacement reached a significant milestone; 20 years clinical history. This is a significant achievement for Australia's only fully integrated "end to end" orthopaedic manufacturer.

Net profit from ordinary activities

The consolidated entity's earnings before interest, tax and depreciation and amortisation ("EBITDA") in FY13 was a profit of \$0.7m compared to profit of \$1m in FY12.

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

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

	2013	2012
	\$'000	\$'000
EBITDA	788	1,431
Less: Depreciation and amortisation	(1,013)	(941)
Less: Finance cost	(270)	(284)
Add: Interest income	7	10
	<hr/>	<hr/>
Profit/(loss) before income tax expense from discontinued operations	(488)	216
Income tax expense	-	(425)
Profit/(loss) after income tax expense from discontinued operations	<hr/> (83) <hr/>	<hr/> 36 <hr/>
Loss after income tax	<hr/> (571) <hr/>	<hr/> (173) <hr/>

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During FY13, the company continued its focus on streamlining its manufacturing processes by consolidating its operations at its St Leonards facility and extending the lease for a further 3 years. The cost and efficiency savings will be enhanced over the coming years into a stronger margin with future improvements.

Corporate and administration expenses have been reduced over FY13 with further initiatives under review to extract additional gains in efficiency and outcomes.

Research & Development ('R & D') continues to be ASDM's competitive advantage and focus. Our local capability in design and manufacture provides for a responsive and dynamic organisation. During FY13, we continued the alignment of our R&D to support our orthopaedic products and customers with our expenses decreasing by \$0.1m to \$1.2m (30 June 2012: \$1.3m). The two components which support our research and development expenses continue to be Orthopaedics and Vascular. During the year the majority of work focused around the orthopaedic product category as the Vascular project, Peripheral Access Device ("PAD"), continues under the clinical trial monitoring program.

Net loss after tax was \$0.6m (30 June 2012: \$0.1m). This result is after the expensing of all research and development related expenses.

Cash position

The cash balance at 30 June 2013 was \$0.3m, with operating cash flow performance improving. During the period the consolidated entity secured a debtors financing facility from Scottish Pacific which will enable growth and security in coming periods. As a consequence the overdraft previously in place has been removed as the terms of the facility of the debtors finance arrangement are far superior.

During FY13, the consolidated entity completed a staged capital raising program which involved a placement to sophisticated investors followed by a Right Issue raising approximately \$0.8m after costs. This additional capital strengthens the balance sheet and enables the company to continue to enhance its product and instrumentation offerings.

Sales revenue in our recently acquired categories continues to show positive signs complementing our core in-house manufactured products.

Notwithstanding the challenges faced during the year ASDM continued to reduce its debt, with the overall debt balance at \$1.9m down from \$2.6m in FY12.

Outlook

FY13 continued the consolidation process for ASDM and improvements on a number of fronts. FY13 has placed us in a stable position from which we can grow, with our objective to deliver continued revenue growth and profit in 2014.

In the year ahead we will continue to drive both the commercial and development aspects of our business to ensure we remain focused on the goal of building shareholder wealth while leveraging our capabilities as Australia's only fully integrated "end to end" orthopaedic manufacturer.

Significant changes in the state of affairs

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

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Matters subsequent to the end of the financial year

An Asset Sale Agreement was entered into with Orthofix Inc on 12 July 2013, the result of which was that the consolidated entity's existing spinal distribution business was acquired by Orthofix Inc's subsidiary Orthofix Australia Pty Ltd ('OA'). This transaction continues the consolidated entity's focus of strengthening the statement of financial position and on its orthopaedic product range in delivering sales growth and profitability.

As part of the agreement, the Orthofix stock was sold to OA for approximately \$2,556,000 and the consolidated entity was able to fully settle its payable with Orthofix Inc for the amount of \$2,546,000. This transaction will result in a gain of \$203,000 in the financial year ending 30 June 2014.

No other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Peter Kazacos
Title:	Non-Executive Director and Chairman
Qualifications:	B.E, B.Sc.
Experience and expertise:	Peter has over 38 years' experience in the IT industry. He founded KAZ in 1988, guided it from a small IT services company in NSW to one of Asia Pacific's leading IT services and business process outsourcing service providers with over 4,000 employees, as a fully owned subsidiary of Telstra. He also founded Anittel Ltd, building it into one of Australia's leading IT&C service providers operating outside the major metropolitan areas, leading to its acquisition in 2010 by Anittel Group Limited, representing a major strategic milestone in the transformation and convergence of the IT&T industry. Prior to founding KAZ and Anittel, Peter held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Peter was the recipient of the inaugural Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category.
Other current directorships:	Executive Chairman of Anittel Group Limited (ASX: AYG)
Former directorships (in the last 3 years):	None
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares:	715,810 ordinary shares
Interests in options:	106,000 options over ordinary shares

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Name: John O'Meara
Title: Non-Executive Director
Experience and expertise: John is an energetic business leader with over 28 years senior management experience in telecommunications and information technology industries in Australia, Asia Pacific and the United Kingdom. He is a seasoned strategy and project manager with expertise in strategic planning and the execution of large scale, complex and deadline dependent projects. He has held a series of senior leadership roles in Optus Pty Limited and was the Program Director responsible for GST compliance when first introduced in Australia. John was the champion of sustainable quality- of-service working practices when he was with British Telecom in Asia Pacific and he was responsible for gaining ISO9001 Total Quality Management accreditation. He also held senior management roles in Australia with AAPT Limited and Dalgety Farmers Limited. In the United Kingdom he held technical management roles with National Westminster Bank and the British Broadcasting Corporation (BBC).

Other current directorships: None
Former directorships (in the last 3 years): None
Special responsibilities: Member of the Nomination and Remuneration Committee and Chairman of the Audit and Risk Committee
Interests in shares: 300,000 ordinary shares
Interests in options: None

Name: Peter Welsh
Title: Executive Director and Managing Director
Experience and expertise: Peter has 44 years' experience in the medical device and health care industry. The last 29 years directly involved with orthopaedics. He was the first NSW distributor for Richards Medical Company, now part of the Smith and Nephew, selling orthopaedic implants and arthroscopy products. He also set up Knee Developments Australia ('KDA'). This company was the manufacturer and worldwide distributor for anterior cruciate ligament ('ACL') products. KDA became the market leader in ACL implants and instruments with sales in many countries around the world. It was sold to Dyonics, a subsidiary of Smith and Nephew.

Other current directorships: None
Former directorships (in the last 3 years): None
Special responsibilities: Member of the Nomination and Remuneration Committee and Member of the Audit and Risk Committee
Interests in shares: 7,123,132 ordinary shares
Interests in options: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary

Richard Ulrick (BA, LLB, Dip Fin Mgt, FCIS, CPA) is engaged by way of a services agreement between the company and Company Secretarial & Legal Services Pty Ltd which he established. Richard is a Solicitor of the Supreme Court of NSW and has more than 28 years' experience in company secretarial and general counsel roles.

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30 June 2013

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2013, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Peter Kazacos	11	11	3	3	4	4
John O'Meara	10	11	3	3	4	4
Peter Welsh	11	11	3	3	4	4

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

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

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

A Principles used to determine the nature and amount of remuneration

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

The consolidated entity's executive remuneration framework was developed initially as part of the process of the consolidated entity becoming a listed company on the ASX in December 2007 and may be fully developed as economic conditions and the financial performance of the consolidated entity permits. The objective is to ensure reward for performance is competitive and appropriate for the results delivered.

The remuneration structures explained below are designed to attract suitably qualified candidates, retain key employees, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The remuneration structures take into account:

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

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Remuneration Committee

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

The remuneration structures are intended to motivate employees for quality short and long term performance. The mix between short term and long term variable components is to maintain a focus on the sustainable short term performance of the consolidated entity, whilst ensuring its positioning for its longer term success.

Remuneration Structure

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

Non-executive directors remuneration

The aggregate remuneration that may be paid to non-executive directors is a maximum of \$500,000 per annum. This remuneration may be divided among the non-executive directors in such a manner as the Board may determine. The maximum may not be increased without prior approval from shareholders at a general meeting. Directors will seek approval from time to time as deemed appropriate.

Fees and payments to non-executive directors are intended to reflect the demands which are made on, and the responsibilities of, the directors.

Payments to non-executive directors are reviewed annually by the Board. The base remuneration has not changed since 1 July 2008. The Board has regard to information from external remuneration sources to ensure non-executive directors' fees and payments are appropriate within the fiscal constraints of a growing company and in line with the market. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration.

As non-executive directors assess individual and the consolidated entity performance, their remuneration does not have a variable performance related component.

Non-executive directors generally do not receive share options. However an allocation was made as part of the process to listing on the ASX of the company's shares.

Notwithstanding these general guidelines directors agreed to dispense with the payment of fees to them for a 12 month period from 1 April 2012. Payments recommenced on 1 April 2013.

Executive remuneration

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

The executive remuneration and reward framework has three components:

- base pay and non-monetary benefits
- short-term performance incentives
- other remuneration such as superannuation and long service leave

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

Fixed remuneration

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

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Remuneration levels are reviewed annually by the Nomination and Remuneration Committee through a process that considers individual and overall performance of the consolidated entity. In addition, regard is had to information from publically available external remuneration sources to ensure senior executives' remuneration is competitive in the market place having regard to the size of the consolidated entity and the fiscal constraints of a growing company. Remuneration levels for the financial year ended 30 June 2013 were set having regard to the global financial crisis and its aftermath.

Consolidated entity performance and link to remuneration

Performance linked remuneration is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. Refer to section E of the remuneration report for details of the earnings and total shareholders return, from 1 July 2009.

Short-term incentive ('STI')

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

If the consolidated entity exceeds a pre-determined Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') target set by the Nomination and Remuneration Committee, a short-term incentive ('STI') pool also set by the Nomination and Remuneration Committee is available to 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.

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

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the consolidated entity's performance. The maximum target bonus opportunity approximates 20% of total remuneration.

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

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

Long-term incentives ('LTI')

The long-term incentive is intended to be provided to key management personnel other than non-executive directors as ordinary shares of the company. The directors had considered share options a key tool in attracting the required talented individuals to the management team while staying within the fiscal constraints of a growing company.

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

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

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

Use of remuneration consultants

During the financial year ended 30 June 2013, the company and consolidated entity did not engage the use of remuneration consultants.

Voting and comments made at the company's 2012 Annual General Meeting ('AGM')

At the last AGM 97% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2012. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Advanced Surgical Design & Manufacture Limited are set out in the following tables.

The key management personnel of the consolidated entity consisted of the directors of Advanced Surgical Design & Manufacture Limited and the following persons:

- Richard Ulrick - Company Secretary
- Tom Milicevic - Chief Executive Officer and Chief Financial Officer

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

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

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2012 Name	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
<i>Non-Executive Directors:</i>							
Peter Kazacos (Chairman) *	46,890	-	-	-	-	-	46,890
John O'Meara *	15,000	-	-	-	-	-	15,000
<i>Executive Directors:</i>							
Dr Gregory James Roger ⁽¹⁾	207,838	-	-	15,847	48,748	-	272,433
<i>Other Key Management Personnel:</i>							
Richard Ulrick	44,100	-	-	-	-	-	44,100
Tom Milicevic	194,482	-	-	17,556	4,448	-	216,486
	<u>508,310</u>	<u>-</u>	<u>-</u>	<u>33,403</u>	<u>53,196</u>	<u>-</u>	<u>594,909</u>

* The directors opted to cease receiving their full entitlement of fees from 1 April 2012, for a period of 12 months.

⁽¹⁾ Key management personnel until resignation on 26 March 2012.

Peter Welsh was appointed on 22 November 2011 as a director however he has received no fees during the financial year ended 30 June 2012.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2013	2012	2013	2012	2013	2012
<i>Non-Executive Directors:</i>						
Peter Kazacos	100%	100%	- %	- %	- %	- %
John O'Meara	100%	100%	- %	- %	- %	- %
<i>Executive Directors:</i>						
Peter Welsh	100%	- %	- %	- %	- %	- %
Dr Gregory James Roger	- %	100%	- %	- %	- %	- %
<i>Other Key Management Personnel:</i>						
Richard Ulrick	100%	100%	- %	- %	- %	- %
Tom Milicevic	96%	100%	- %	- %	4%	- %

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2013	2012	2013	2012
<i>Executive Directors:</i>				
Dr Gregory James Roger	- %	- %	100%	100%
<i>Other Key Management Personnel:</i>				
Tom Milicevic	- %	- %	100%	100%

C Service agreements

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

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Tom Milicevic
Title:	Chief Executive Officer and Chief Financial Officer
Details:	Currently on CFO contract. Contract of employment as CEO is being finalised by the Board.

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

D Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

Name	Date	No of shares	Issue price	\$
Tom Milicevic	19 October 2012	300,000	\$0.10	10

The issued of shares to the CEO are under the following conditions;

1. Subject to a trading lock which remains in place until earlier of 30 June 2015 and the date the Board in its absolute discretion determines where a takeover bid causes or is likely to cause a change of control of the company and,
2. Are cancelled in the event that you cease to be an employee on or before 30 June 2015.

Options

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2013.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013.

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E Additional information

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

In considering the consolidated entity's performance and benefits for shareholders' wealth, the Nomination and Remuneration Committee has regard to the consolidated entity's earnings and any dividends paid together with share price performance since 1 July 2008.

The earnings of the consolidated entity for the five years to 30 June 2013 are summarised below:

	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000
Sales revenue	6,409	7,470	7,370	8,112	7,175
EBITDA	(700)	1,236	(1,743)	1,431	788

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

	2009	2010	2011	2012	2013
Share price at financial year end (\$A)	0.30	0.43	0.27	0.15	0.11
Total dividends declared (cents per share)	0.00	0.00	0.00	0.00	0.00

Notwithstanding the advances continued to be made by the consolidated entity during the year, the required EBITDA for the year ended 30 June 2013 was not achieved so that bonus payments for key management personnel have not been paid.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Advanced Surgical Design & Manufacture Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
15 November 2007	16 November 2013	\$0.60	200,000

Shares issued on the exercise of options

There were no shares of Advanced Surgical Design & Manufacture Limited issued on the exercise of options during the year ended 30 June 2013 and up to the date of this report.

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Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium of \$24,133 in respect of a contract to insure the directors and company secretary of the company against a liability to the extent permitted by the Corporations Act 2001.

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 29 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 29 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former audit partners of PwC

There are no officers of the company who are former audit partners of PwC.

Rounding of amounts

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

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Auditor's independence declaration

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

Auditor

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

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Kazacos
Director

30 August 2013
Sydney



Auditor's Independence Declaration

As lead auditor for the audit of Advanced Surgical Design & Manufacture Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'James McElvogue', is written over the typed name.

James McElvogue
Partner
PricewaterhouseCoopers

Sydney
30 August 2013

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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Advanced Surgical Design and Manufacture Limited
Corporate Governance Statement
30 June 2013

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

The company has endorsed the updated Corporate Governance Principles and Recommendations with 2010 Amendments released by the ASX Corporate Governance Council ('ASX Guidelines') and seeks to follow them to the extent that it is practicable having regard to the size and nature of its operations. All of the Recommendations that applied for the financial year ended 30 June 2013 have been followed with the exception that the requirement of Recommendation 4.2 for an audit committee to have at least three members and consist only of non-executive directors has not been followed. The committee consists of all three directors and only two of them are non-executive. This had been considered appropriate having regard to the size of the company's operations.

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

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

The Board of Directors (the 'Board')

Board composition

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

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

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

Responsibilities

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

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

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

Directors' independence

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

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

1. is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
2. is employed, or has previously been employed in an executive capacity by the company or consolidated entity, and there has not been a period of at least three years between ceasing such employment and serving on the Board;

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3. has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is a material supplier or customer of the company or consolidated entity, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
5. has a material contractual relationship with the company or consolidated entity other than as a director.

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

Director induction and education

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

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

Conflict of interests

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

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

Independent professional advice and access to company information

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

Corporate reporting

The Chief Executive Officer and the Chief Financial Officer give an annual written declaration to the Board that in their opinion the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001, the company's financial statements and the notes to those statements for the financial year comply with accounting standards and present a true and fair view of the company's financial condition and operational results. They have confirmed in writing to the Board that this declaration in relation to the financial year ended 30 June 2013 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Board committees

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

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

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

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

Nomination and Remuneration Committee

Composition

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

Meetings and reporting

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

Responsibilities

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

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

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

Performance assessment

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

New directors

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

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

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

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

Executive performance assessment

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

Further details on the performance review process that took place for the financial year ended 30 June 2013 for the Chief Executive Officer and senior executives is discussed in the 'Remuneration Report' which forms part of the Directors' Report.

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Remuneration

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

Audit and Risk Committee

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

Composition, meetings and reporting

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

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

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

All committee minutes are tabled at Board meetings for review.

Responsibilities

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

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

External auditors

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

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

Risk assessment and management

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

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

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

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

Code of Conduct

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

Diversity Policy

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

At the beginning of the financial year approximately one third of the employees of the company were women and a similar proportion of executives were also women. By year's end the proportion of women employees in the company has increased to 50% and the proportion of women in senior executive positions has similarly increased. Accordingly, its objective for the year of maintaining the existing proportion (approximately one-third women) of gender balance within the organisation and at senior executive level other than at Board level has been exceeded.

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

Trading in general company securities by directors and employees

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

A person undertakes insider trading 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.

Advanced Surgical Design & Manufacture Limited
Financial report
30 June 2013

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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 30 August 2013. The directors have the power to amend and reissue the financial report.

Advanced Surgical Design & Manufacture Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	Consolidated 2013 \$'000	2012 \$'000
Revenue from continuing operations	4	7,175	8,112
Other income	5	668	611
Expenses			
Cost of sales and purchases of consumables		(3,312)	(3,342)
Corporate and administration expenses		(2,036)	(2,219)
Quality and research and development expenses		(1,146)	(1,297)
Sales and marketing expenses		(1,567)	(1,365)
Finance costs	6	<u>(270)</u>	<u>(284)</u>
Profit/(loss) before income tax expense from continuing operations		(488)	216
Income tax expense	7	<u>-</u>	<u>(425)</u>
Loss after income tax expense from continuing operations		(488)	(209)
Profit/(loss) after income tax expense from discontinued operations	8	<u>(83)</u>	<u>36</u>
Loss after income tax expense for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited	25	(571)	(173)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(45)</u>	<u>(2)</u>
Other comprehensive income for the year, net of tax		<u>(45)</u>	<u>(2)</u>
Total comprehensive income for the year		<u><u>(616)</u></u>	<u><u>(175)</u></u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(533)	(211)
Discontinued operations		<u>(83)</u>	<u>36</u>
		<u><u>(616)</u></u>	<u><u>(175)</u></u>

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

Advanced Surgical Design & Manufacture Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	Consolidated	
		2013 \$'000	2012 \$'000
		Cents	Cents
Earnings per share from continuing operations attributable to the owners of Advanced Surgical Design & Manufacture Limited			
Basic earnings per share	37	(1.27)	(0.59)
Diluted earnings per share	37	(1.27)	(0.59)
Earnings per share from discontinued operations attributable to the owners of Advanced Surgical Design & Manufacture Limited			
Basic earnings per share	37	(0.22)	0.10
Diluted earnings per share	37	(0.22)	0.10
Earnings per share for loss attributable to the owners of Advanced Surgical Design & Manufacture Limited			
Basic earnings per share	37	(1.49)	(0.49)
Diluted earnings per share	37	(1.49)	(0.49)

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

Advanced Surgical Design & Manufacture Limited
Statement of financial position
As at 30 June 2013

		Consolidated	
	Note	2013	2012
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents	9	287	1
Trade and other receivables	10	1,628	1,797
Inventories	11	3,117	5,597
Income tax refund due	12	544	605
Current assets classified as held for sale	13	2,343	-
Total current assets		<u>7,919</u>	<u>8,000</u>
Non-current assets			
Receivables	14	118	192
Property, plant and equipment	15	2,567	3,159
Intangibles	16	153	256
Total non-current assets		<u>2,838</u>	<u>3,607</u>
Total assets		<u>10,757</u>	<u>11,607</u>
Liabilities			
Current liabilities			
Trade and other payables	17	1,736	4,517
Borrowings	18	1,139	887
Provisions	19	137	129
		<u>3,012</u>	<u>5,533</u>
Liabilities directly associated with assets classified as held for sale	20	2,556	-
Total current liabilities		<u>5,568</u>	<u>5,533</u>
Non-current liabilities			
Borrowings	21	739	1,700
Provisions	22	247	339
Total non-current liabilities		<u>986</u>	<u>2,039</u>
Total liabilities		<u>6,554</u>	<u>7,572</u>
Net assets		<u>4,203</u>	<u>4,035</u>
Equity			
Issued capital	23	9,602	8,818
Reserves	24	521	566
Accumulated losses	25	(5,920)	(5,349)
Total equity		<u>4,203</u>	<u>4,035</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of changes in equity
For the year ended 30 June 2013

	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2011	8,855	568	(5,176)	4,247
Loss after income tax expense for the year	-	-	(173)	(173)
Other comprehensive income for the year, net of tax	-	(2)	-	(2)
Total comprehensive income for the year	-	(2)	(173)	(175)
<i>Transactions with owners in their capacity as owners:</i>				
Tax effect on transaction costs arising on share issue	(37)	-	-	(37)
Balance at 30 June 2012	<u>8,818</u>	<u>566</u>	<u>(5,349)</u>	<u>4,035</u>
	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2012	8,818	566	(5,349)	4,035
Loss after income tax expense for the year	-	-	(571)	(571)
Other comprehensive income for the year, net of tax	-	(45)	-	(45)
Total comprehensive income for the year	-	(45)	(571)	(616)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 23)	784	-	-	784
Balance at 30 June 2013	<u>9,602</u>	<u>521</u>	<u>(5,920)</u>	<u>4,203</u>

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

Advanced Surgical Design & Manufacture Limited
Statement of cash flows
For the year ended 30 June 2013

	Note	Consolidated	
		2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		8,338	8,893
Payments to suppliers and employees (inclusive of GST)		<u>(8,151)</u>	<u>(8,195)</u>
		187	698
Interest received		7	10
Interest and other finance costs paid		(270)	(284)
Income taxes refunded		<u>605</u>	<u>-</u>
Net cash from operating activities	36	<u>529</u>	<u>424</u>
Cash flows from investing activities			
Payments for property, plant and equipment	15	(307)	(356)
Payments for intangibles	16	<u>(11)</u>	<u>(40)</u>
Net cash used in investing activities		<u>(318)</u>	<u>(396)</u>
Cash flows from financing activities			
Proceeds from issue of shares	23	872	-
Proceeds from borrowings - related party		-	200
Share issue transaction costs		(88)	-
Repayment of lease liabilities		(325)	(239)
Repayments from borrowings - related party		<u>(200)</u>	<u>-</u>
Net cash from/(used in) financing activities		<u>259</u>	<u>(39)</u>
Net increase/(decrease) in cash and cash equivalents		470	(11)
Cash and cash equivalents at the beginning of the financial year		<u>(183)</u>	<u>(172)</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>287</u></u>	<u><u>(183)</u></u>

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 1. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

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

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income

The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term 'Statement of profit or loss and other comprehensive income' clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 1. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Advanced Surgical Design & Manufacture Limited ('company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Advanced Surgical Design & Manufacture Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

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

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 1. Significant accounting policies (continued)

Revenue recognition

The consolidated entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the consolidated entity's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The consolidated entity bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

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

Lease income

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

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Discontinued operations

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

Note 1. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Note 1. Significant accounting policies (continued)

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

Property, plant and equipment

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

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

Plant and equipment	2-20 years
Fixtures and fittings	2-13 years
Leasehold improvements	2-10 years
Lease make good	2-10 years
Instrument sets	5-7 years

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the lease inception at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

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

Note 1. Significant accounting policies (continued)

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Website

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 10 and 20 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 1 and 20 years.

Research and development

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

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

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

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

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

Note 1. Significant accounting policies (continued)

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Wages and salaries and annual leave

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

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

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

Share-based payments

Share-based compensation benefits are provided to employees via the ASDM Employee Option Plan and an employee share scheme. Information relating to these schemes is set out in note 38.

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

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

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

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements

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

Note 1. Significant accounting policies (continued)

AASB 11 Joint Arrangements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, in accordance with the standards applicable to the particular assets, liabilities, revenues and expenses. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

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

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The amendments also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. This will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is not expected to have a material impact on the consolidated entity.

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

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No. 1) now specify the KMP disclosure requirements to be included within the directors report for annual reporting periods beginning 1 July 2013.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 1. Significant accounting policies (continued)

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the consolidated entity.

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

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

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039

This amendment is applicable to annual reporting periods beginning on or after 1 January 2013. The amendment removes reference in AASB 1048 following the withdrawal of Interpretation 1039. The adoption of this amendment will not have a material impact on the consolidated entity.

AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments

These amendments are applicable to annual reporting periods beginning on or after 1 January 2013. They amend AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments. The adoption of these amendments will not have a material impact on the consolidated entity.

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

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

Note 2. Critical accounting judgements, estimates and assumptions

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

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

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

Impairment of non-financial assets other than goodwill

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

Recovery of deferred tax assets

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

Lease make good provision

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

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

Going concern

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

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

- The loss before tax and discontinued operations for the financial year ended 30 June 2013 was \$488,000 (2012: \$216,000) with positive cashflows from operations of \$529,000 (2012: \$424,000).
- Although net current assets are \$2,351,000 (2012: \$2,467,000), current liabilities include an amount of \$2,546,000 owed to a supplier for the purchase of inventory included in current assets of \$2,343,000. Subsequent to year end the inventory was sold as disclosed in Note 35 and the liability has been settled.
- The consolidated entity has successfully renegotiated at reporting date an extension in the repayment of a related party loan totalling \$570,000 to be payable not before 31 December 2013 but before 30 June 2014.
- The company has a debtors finance facility with \$762,000 available to be drawn down as at the year ended 30 June 2013.
- The company successfully raised \$564,000 from capital raising and \$187,000 from a rights issue net of transaction costs.

Considering the above and recent transaction described in Note 35- Events after the reporting period, the Going Concern basis is deemed appropriate.

Note 3. Operating segments

Identification of reportable operating segments

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

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

Major customers

During the year ended 30 June 2013 approximately 27% (\$2.1m) and 21% (\$1.6m) (2012: 32% (\$2.9m) and 29% (\$2.6m)) of the consolidated entity's external revenue was derived from sales to two major hospital groups.

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

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Note 3. Operating segments (continued)

Operating segment information

	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated - 2013		
EBITDA	<u>788</u>	788
Depreciation and amortisation		(1,013)
Interest revenue		7
Finance costs		(270)
Loss from discontinued operations		<u>(83)</u>
Loss before income tax expense		(571)
Income tax expense		<u>-</u>
Loss after income tax expense		<u>(571)</u>
	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated - 2012		
EBITDA	<u>1,431</u>	1,431
Depreciation and amortisation		(941)
Interest revenue		10
Finance costs		(284)
Profit from discontinued operations		<u>36</u>
Profit before income tax expense		252
Income tax expense		<u>(425)</u>
Loss after income tax expense		<u>(173)</u>

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

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Note 4. Revenue

	Consolidated	
	2013	2012
	\$'000	\$'000
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	7,156	7,954
<i>Other revenue</i>		
Interest	7	10
Sub-lease rentals	12	148
	<u>19</u>	<u>158</u>
Revenue from continuing operations	<u>7,175</u>	<u>8,112</u>

Note 5. Other income

	Consolidated	
	2013	2012
	\$'000	\$'000
Net foreign exchange gain	121	-
Other income	3	6
Research and development refund	544	605
Other income	<u>668</u>	<u>611</u>

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Note 6. Expenses

	Consolidated	
	2013	2012
	\$'000	\$'000
Profit/(loss) before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	293	325
Fixtures and fittings	223	227
Leasehold improvements	44	33
Lease make good	40	60
Instrument sets	299	234
	<hr/>	<hr/>
Total depreciation	899	879
	<hr/>	<hr/>
<i>Amortisation</i>		
Website	16	19
Patents and trademarks	98	43
	<hr/>	<hr/>
Total amortisation	114	62
	<hr/>	<hr/>
Total depreciation and amortisation	1,013	941
	<hr/>	<hr/>
<i>Impairment</i>		
Inventories	347	197
Trade receivables	-	142
	<hr/>	<hr/>
Total impairment	347	339
	<hr/>	<hr/>
<i>Finance costs</i>		
Interest and finance charges paid/payable	270	284
	<hr/>	<hr/>
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	-	16
	<hr/>	<hr/>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	665	762
	<hr/>	<hr/>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	204	238
	<hr/>	<hr/>
<i>Share-based payments expense</i>		
Share-based payments expense	25	-
	<hr/>	<hr/>
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	2,112	2,560
	<hr/>	<hr/>

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Notes to the financial statements
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Note 7. Income tax expense

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Income tax expense</i>		
Deferred tax - origination and reversal of temporary differences	-	425
Aggregate income tax expense	<u>-</u>	<u>425</u>
Income tax expense is attributable to:		
Profit from continuing operations	-	425
Aggregate income tax expense	<u>-</u>	<u>425</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense from continuing operations	(488)	216
Profit/(loss) before income tax (expense)/benefit from discontinued operations	<u>(83)</u>	<u>36</u>
	<u>(571)</u>	<u>252</u>
Tax at the statutory tax rate of 30%	(171)	76
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	3	3
Share-based payments	7	-
Concessional research and development expenditure treatment	363	403
Write-off of loan - ASDM (UK) Limited	-	168
Sundry items	<u>(196)</u>	<u>(452)</u>
	6	198
Prior year tax losses not recognised now recouped	-	(198)
Deferred tax asset from prior years derecognised	-	462
Share raising cost recognised directly in equity	<u>(6)</u>	<u>(37)</u>
Income tax expense	<u>-</u>	<u>425</u>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>5,400</u>	<u>5,950</u>
Potential tax benefit @ 30%	<u>1,620</u>	<u>1,785</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Grant income from the research and development incentive grant is classified as other income and comparative figures have been restated for comparative purposes.

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Note 8. Discontinued operations

Description

As noted in note 35, on 12 July 2013 the consolidated entity signed an agreement with Orthofix Australia Pty Ltd for the disposal of its spinal business. This business has therefore been treated as a discontinued operation.

Financial performance information

	Consolidated	
	2013	2012
	\$'000	\$'000
Revenue	618	557
Total revenue	<u>618</u>	<u>557</u>
Cost of sales and purchases of consumables	(133)	(173)
Corporate and administration expenses	(254)	(68)
Sales and marketing expense	(314)	(280)
Total expenses	<u>(701)</u>	<u>(521)</u>
Profit/(loss) before income tax expense	(83)	36
Income tax expense	<u>-</u>	<u>-</u>
Profit/(loss) after income tax expense from discontinued operations	<u>(83)</u>	<u>36</u>

Cash flow information

	Consolidated	
	2013	2012
	\$'000	\$'000
Net cash from/(used in) operating activities	<u>(59)</u>	<u>117</u>
Net increase/(decrease) in cash and cash equivalents from discontinued operations	<u>(59)</u>	<u>117</u>

Note 9. Current assets - cash and cash equivalents

	Consolidated	
	2013	2012
	\$'000	\$'000
Cash on hand	<u>287</u>	<u>1</u>

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

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

Balances as above	287	1
Bank overdraft (note 18)	<u>-</u>	<u>(184)</u>
Balance as per statement of cash flows	<u>287</u>	<u>(183)</u>

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Note 10. Current assets - trade and other receivables

	Consolidated	
	2013	2012
	\$'000	\$'000
Trade receivables	1,221	1,593
Other receivables	177	-
Prepayments	230	204
	<u>1,628</u>	<u>1,797</u>

Impairment of receivables

The consolidated entity has recognised a provision \$nil (2012: \$nil) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2013.

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

	Consolidated	
	2013	2012
	\$'000	\$'000
Opening balance	-	122
Foreign currency adjustment	-	(5)
Receivables written off during the year as uncollectable	-	(117)
Closing balance	<u>-</u>	<u>-</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$262,000 as at 30 June 2013 (\$102,000 as at 30 June 2012).

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

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

	Consolidated	
	2013	2012
	\$'000	\$'000
1 to 2 months	214	100
3 to 4 months	48	2
	<u>262</u>	<u>102</u>

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Note 11. Current assets - inventories

	Consolidated	
	2013	2012
	\$'000	\$'000
Raw materials - at cost	366	384
Work in progress - at cost	276	96
Finished goods - at lower of cost or net realisable value	<u>2,475</u>	<u>5,117</u>
	<u><u>3,117</u></u>	<u><u>5,597</u></u>

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to \$347,000 (2012: \$197,000). The expense has been included in 'cost of sales and purchase of consumables' in profit or loss.

Note 12. Current assets - income tax refund due

	Consolidated	
	2013	2012
	\$'000	\$'000
Income tax refund due	<u>544</u>	<u>605</u>

Note 13. Current assets - current assets classified as held for sale

	Consolidated	
	2013	2012
	\$'000	\$'000
Inventories	<u>2,343</u>	<u>-</u>

Refer to note 8.

Note 14. Non-current assets - receivables

	Consolidated	
	2013	2012
	\$'000	\$'000
Other receivables	<u>118</u>	<u>192</u>

Impaired receivables or receivables past due

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

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Note 15. Non-current assets - property, plant and equipment

	Consolidated	
	2013	2012
	\$'000	\$'000
Plant and equipment - at cost	6,672	6,696
Less: Accumulated depreciation	<u>(5,732)</u>	<u>(5,498)</u>
	<u>940</u>	<u>1,198</u>
Fixtures and fittings - at cost	1,811	1,780
Less: Accumulated depreciation	<u>(1,342)</u>	<u>(1,129)</u>
	<u>469</u>	<u>651</u>
Leasehold improvements - at cost	467	280
Less: Accumulated depreciation	<u>(301)</u>	<u>(257)</u>
	<u>166</u>	<u>23</u>
Lease make good - at cost	300	300
Less: Accumulated depreciation	<u>(300)</u>	<u>(260)</u>
	<u>-</u>	<u>40</u>
Instrument sets - at cost	2,529	2,485
Less: Accumulated depreciation	<u>(1,537)</u>	<u>(1,238)</u>
	<u>992</u>	<u>1,247</u>
	<u><u>2,567</u></u>	<u><u>3,159</u></u>

Reconciliations

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

	Plant and equipment \$'000	Fixtures and fittings \$'000	Leasehold improvements \$'000	Lease make good \$'000	Instrument sets \$'000	Total \$'000
Consolidated						
Balance at 1 July 2011	1,486	861	55	94	1,186	3,682
Additions	37	17	1	6	295	356
Depreciation expense	<u>(325)</u>	<u>(227)</u>	<u>(33)</u>	<u>(60)</u>	<u>(234)</u>	<u>(879)</u>
Balance at 30 June 2012	1,198	651	23	40	1,247	3,159
Additions	10	66	187	-	44	307
Depreciation expense	<u>(293)</u>	<u>(223)</u>	<u>(44)</u>	<u>(40)</u>	<u>(299)</u>	<u>(899)</u>
Balance at 30 June 2013	<u><u>915</u></u>	<u><u>494</u></u>	<u><u>166</u></u>	<u><u>-</u></u>	<u><u>992</u></u>	<u><u>2,567</u></u>

Property, plant and equipment secured under finance leases

Refer to note 31 for further information on property, plant and equipment secured under finance leases.

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Note 16. Non-current assets - intangibles

	Consolidated	
	2013	2012
	\$'000	\$'000
Website - at cost	121	121
Less: Accumulated amortisation	(109)	(93)
	<u>12</u>	<u>28</u>
Patents and trademarks - at cost	523	512
Less: Accumulated amortisation	(382)	(284)
	<u>141</u>	<u>228</u>
	<u><u>153</u></u>	<u><u>256</u></u>

Reconciliations

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

	Website \$'000	Patents and trademarks \$'000	Total \$'000
Consolidated			
Balance at 1 July 2011	47	231	278
Additions	-	40	40
Amortisation expense	(19)	(43)	(62)
	<u>28</u>	<u>228</u>	<u>256</u>
Balance at 30 June 2012	28	228	256
Additions	-	11	11
Amortisation expense	(16)	(98)	(114)
	<u>12</u>	<u>141</u>	<u>153</u>
Balance at 30 June 2013	<u><u>12</u></u>	<u><u>141</u></u>	<u><u>153</u></u>

Note 17. Current liabilities - trade and other payables

	Consolidated	
	2013	2012
	\$'000	\$'000
Trade payables	554	3,243
Accrued expenses	836	972
Other payables	346	302
	<u>1,736</u>	<u>4,517</u>
	<u><u>1,736</u></u>	<u><u>4,517</u></u>

Refer to note 27 for further information on financial instruments.

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Note 18. Current liabilities - borrowings

	Consolidated	
	2013	2012
	\$'000	\$'000
Bank overdraft	-	184
Related party loans	570	200
Lease liability	569	503
	<u>1,139</u>	<u>887</u>

Refer to note 21 for further information on assets pledged as security and financing arrangements and note 27 for further information on financial instruments.

Note 19. Current liabilities - provisions

	Consolidated	
	2013	2012
	\$'000	\$'000
Employee benefits	<u>137</u>	<u>129</u>

Note 20. Current liabilities - liabilities directly associated with assets classified as held for sale

	Consolidated	
	2013	2012
	\$'000	\$'000
Trade payables	2,546	-
Employee benefits	10	-
	<u>2,556</u>	<u>-</u>

Refer to note 8.

Note 21. Non-current liabilities - borrowings

	Consolidated	
	2013	2012
	\$'000	\$'000
Related party loans	-	570
Lease liability	739	1,130
	<u>739</u>	<u>1,700</u>

Refer to note 27 for further information on financial instruments.

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Note 21. Non-current liabilities - borrowings (continued)

Total secured liabilities

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

	Consolidated	
	2013	2012
	\$'000	\$'000
Bank overdraft	-	184
Lease liability	1,308	1,633
	<u>1,308</u>	<u>1,817</u>
	<u><u>1,308</u></u>	<u><u>1,817</u></u>

Assets pledged as security

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

	Consolidated	
	2013	2012
	\$'000	\$'000
Cash and cash equivalents	287	1
Receivables	1,339	1,765
Plant and equipment	537	745
	<u>2,163</u>	<u>2,511</u>
	<u><u>2,163</u></u>	<u><u>2,511</u></u>

Financing arrangements

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

	Consolidated	
	2013	2012
	\$'000	\$'000
Total facilities		
Bank overdraft	-	500
Related party borrowing facility	570	770
Lease liability	1,308	1,633
Business card facility	15	15
	<u>1,893</u>	<u>2,918</u>
	<u><u>1,893</u></u>	<u><u>2,918</u></u>
Used at the reporting date		
Bank overdraft	-	184
Related party borrowing facility	570	770
Lease liability	1,308	1,633
Business card facility	-	-
	<u>1,878</u>	<u>2,587</u>
	<u><u>1,878</u></u>	<u><u>2,587</u></u>
Unused at the reporting date		
Bank overdraft	-	316
Related party borrowing facility	-	-
Lease liability	-	-
Business card facility	15	15
	<u>15</u>	<u>331</u>
	<u><u>15</u></u>	<u><u>331</u></u>

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Note 22. Non-current liabilities - provisions

	Consolidated	
	2013	2012
	\$'000	\$'000
Employee benefits	38	39
Lease make good	209	300
	<u>247</u>	<u>339</u>

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Lease make good \$'000
Consolidated - 2013	
Carrying amount at the start of the year	300
Amounts used	<u>(91)</u>
Carrying amount at the end of the year	<u>209</u>

Note 23. Equity - issued capital

	Consolidated		Consolidated	
	2013	2012	2013	2012
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>43,751,248</u>	<u>35,298,996</u>	<u>9,602</u>	<u>8,818</u>

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2011	35,298,996		8,855
Less: Tax effect on transaction costs arising on share issue				<u>(37)</u>
Balance	30 June 2012	35,298,996		8,818
Shares issued	23 October 2012	750,000	\$0.11	25
Shares issued	13 February 2013	5,407,349	\$0.11	595
Shares issued	03 April 2013	2,294,903	\$0.11	252
Shares issued transaction cost				<u>(88)</u>
Balance	30 June 2013	<u>43,751,248</u>		<u>9,602</u>

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Note 23. Equity - issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

Share buy-back

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

Capital risk management

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

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2012 Annual Report.

Note 24. Equity - reserves

	Consolidated		
	2013	2012	
	\$'000	\$'000	
Foreign currency reserve	-	45	
Share-based payments reserve	521	521	
	<u>521</u>	<u>566</u>	
	Foreign currency \$'000	Share-based payments \$'000	Total \$'000
Consolidated			
Balance at 1 July 2011	47	521	568
Foreign currency translation	(2)	-	(2)
	<u>45</u>	<u>521</u>	<u>566</u>
Balance at 30 June 2012	45	521	566
Foreign currency translation	(45)	-	(45)
	<u>-</u>	<u>521</u>	<u>521</u>
Balance at 30 June 2013	-	521	521

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Note 24. Equity - reserves (continued)

Foreign currency reserve

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

Share-based payments reserve

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

Note 25. Equity - accumulated losses

	Consolidated	
	2013	2012
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(5,349)	(5,176)
Loss after income tax expense for the year	<u>(571)</u>	<u>(173)</u>
Accumulated losses at the end of the financial year	<u><u>(5,920)</u></u>	<u><u>(5,349)</u></u>

Note 26. Equity - dividends

Dividends

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

Franking credits

	Consolidated	
	2013	2012
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u><u>320</u></u>	<u><u>320</u></u>

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

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 27. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

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Note 27. Financial instruments (continued)

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

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

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

	Assets		Liabilities	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
Euros	-	-	4	5
New Zealand dollars	15	59	-	-
Swiss Francs	-	-	3	9
US Dollars	-	-	2,788	2,759
	<u>15</u>	<u>59</u>	<u>2,795</u>	<u>2,773</u>

The consolidated entity had net liabilities denominated in foreign currencies of \$2,780,000 (assets \$15,000 less liabilities \$2,795,000) as at 30 June 2013 (2012: net liabilities of \$2,714,000 (assets \$59,000 less liabilities \$2,773,000)). Based on this exposure, had the Australian Dollar weakened/strengthened by 10% (2012: weakened / strengthened by 10%) against these foreign currencies with all other variables held constant, the consolidated entity's loss before tax for the year would have been \$278,000 higher / lower (2012: \$271,000 higher / lower) and equity would have been \$278,000 higher / lower (2012: \$271,000 higher / lower). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange gain for the year ended 30 June 2013 was \$76,000 (2012: \$32,000).

Price risk

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

Interest rate risk

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

For the consolidated entity the bank and other loans outstanding, totalling \$1,561,000 (2012: \$1,935,000), are principal and interest payment loans. The minimum principal repayments of \$1,008,000 (2012: \$401,000) are due during the year ending 30 June 2014 (2012: 30 June 2013) for these loans.

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

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Note 27. Financial instruments (continued)

Credit risk

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

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2013	2012
	\$'000	\$'000
Bank overdraft	-	316
Business card facility	15	15
	<u>15</u>	<u>331</u>

The \$118,000 rent deposit (2012: \$185,000) included in other receivables (Note 14).

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2013	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	3,100	-	-	-	3,100
Other payables	-	346	-	-	-	346
<i>Interest-bearing - fixed rate</i>						
Related party loan	15.00	655	-	-	-	655
Finance leases	8.68	639	598	330	-	1,567
Total non-derivatives		<u>4,740</u>	<u>598</u>	<u>330</u>	<u>-</u>	<u>5,668</u>

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 27. Financial instruments (continued)

Consolidated - 2012	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	3,243	-	-	-	3,243
Other payables	-	302	-	-	-	302
<i>Interest-bearing - variable</i>						
Bank overdraft	13.40	196	-	-	-	196
<i>Interest-bearing - fixed rate</i>						
Other loans	15.00	49	65	159	-	273
Related party loan	15.00	301	613	-	-	914
Finance leases	8.94	509	509	586	-	1,604
Lease liability (Hire purchase)	9.00	48	9	-	-	57
Total non-derivatives		4,648	1,196	745	-	6,589

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 28. Key management personnel disclosures

Directors

The following persons were directors of Advanced Surgical Design & Manufacture Limited during the financial year:

Peter Kazacos	Non-Executive Director and Chairman
John O'Meara	Non-Executive Director
Peter Welsh	Executive Director and Managing Director

Other key management personnel

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

Richard Ulrick	Company Secretary
Tom Milicevic	Chief Executive Officer and Chief Financial Officer

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 28. Key management personnel disclosures (continued)

Compensation

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

	Consolidated	
	2013	2012
	\$	\$
Short-term employee benefits	286,289	508,310
Post-employment benefits	18,235	33,403
Long-term benefits	9,801	53,196
Share-based payments	10,000	-
	<u>324,325</u>	<u>594,909</u>

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
2013					
<i>Ordinary shares</i>					
Peter Kazacos	715,810	-	-	-	715,810
John O'Meara	300,000	-	-	-	300,000
Peter Welsh	7,123,132	-	-	-	7,123,132
Richard Ulrick	197,453	-	-	-	197,453
Tom Milicevic	71,335	300,000	-	-	371,335
	<u>8,407,730</u>	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>8,707,730</u>
2012					
<i>Ordinary shares</i>					
Peter Kazacos	715,810	-	-	-	715,810
John O'Meara	300,000	-	-	-	300,000
Peter Welsh *	-	-	7,123,132	-	7,123,132
Dr Gregory James Roger **	7,554,690	-	-	(7,554,690)	-
Richard Ulrick	197,453	-	-	-	197,453
Tom Milicevic	68,001	-	3,334	-	71,335
	<u>8,835,954</u>	<u>-</u>	<u>7,126,466</u>	<u>(7,554,690)</u>	<u>8,407,730</u>

* Additions - represents shares held on becoming a key management personnel.

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 28. Key management personnel disclosures (continued)

Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2013					
<i>Options over ordinary shares</i>					
Peter Kazacos	106,000	-	-	(106,000)	-
Tom Milicevic	200,000	-	-	-	200,000
	<u>306,000</u>	<u>-</u>	<u>-</u>	<u>(106,000)</u>	<u>200,000</u>
	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2012					
<i>Options over ordinary shares</i>					
Peter Kazacos	106,000	-	-	-	106,000
Dr Gregory James Roger *	254,000	-	-	(254,000)	-
Tom Milicevic	200,000	-	-	-	200,000
	<u>560,000</u>	<u>-</u>	<u>-</u>	<u>(254,000)</u>	<u>306,000</u>

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

Related party transactions

Related party transactions are set out in note 32.

Note 29. Remuneration of auditors

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

	Consolidated	
	2013	2012
	\$	\$
<i>Audit services - PwC</i>		
Audit or review of the financial statements	<u>108,000</u>	<u>120,000</u>
<i>Other services - PwC</i>		
Tax compliance services	15,000	21,500
Tax consulting and advice	<u>85,000</u>	<u>90,000</u>
	<u>100,000</u>	<u>111,500</u>
	<u>208,000</u>	<u>231,500</u>

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 30. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2013 and 30 June 2012.

The consolidated entity has performance guarantee totalling \$118,000 at 30 June 2013 (2012: \$185,000) in relation to rental commitments.

Note 31. Commitments

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	344	493
One to five years	600	-
	<u>944</u>	<u>493</u>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	639	606
One to five years	928	1,328
	<u>1,567</u>	<u>1,934</u>
Total commitment	1,567	1,934
Less: Future finance charges	<u>(259)</u>	<u>(301)</u>
Net commitment recognised as liabilities	<u>1,308</u>	<u>1,633</u>
Representing:		
Lease liability - current (note 18)	569	503
Lease liability - non-current (note 21)	739	1,130
	<u>1,308</u>	<u>1,633</u>

The future minimum non-cancellable sub-lease operating lease payments expected to be received by the consolidated entity is \$Nil (2012: \$13,000).

Operating lease commitments includes contracted amounts for various offices and plant and equipment under non-cancellable operating leases expiring within one to five years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$537,000 (2012: \$746,000) under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 32. Related party transactions

Parent entity

Advanced Surgical Design & Manufacture Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2013	2012
	\$	\$
Payment for goods and services:		
Fee for maintenance and support services from Anittel Group Limited (shareholder and director related entity of Peter Kazacos)	82,374	64,960
Fees paid to Law Corporation (director related entity of Peter Kazacos)	3,500	9,500
Payment for other expenses:		
Interest paid to parties related to Tom Milicevic	108,730	75,925

Receivable from and payable to related parties

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

Loans to/from related parties

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

	Consolidated	
	2013	2012
	\$	\$
Current borrowings:		
Loan with parties related to Tom Milicevic	570,020	200,000
Non-current borrowings:		
Loan with parties related to Tom Milicevic	-	570,020

Terms and conditions

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 33. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2013	2012
	\$'000	\$'000
Loss after income tax	(616)	(1,033)
Total comprehensive income	<u>(616)</u>	<u>(1,033)</u>

Statement of financial position

	Parent	
	2013	2012
	\$'000	\$'000
Total current assets	<u>7,936</u>	<u>8,016</u>
Total assets	<u>10,774</u>	<u>11,622</u>
Total current liabilities	<u>5,568</u>	<u>5,531</u>
Total liabilities	<u>6,554</u>	<u>7,570</u>
Equity		
Issued capital	9,602	8,818
Share-based payments reserve	521	521
Accumulated losses	<u>(5,903)</u>	<u>(5,287)</u>
Total equity	<u><u>4,220</u></u>	<u><u>4,052</u></u>

Contingent liabilities

The parent entity had no contingent liabilities at 30 June 2013 and 30 June 2012.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for the purchase of property, plant and equipment at 30 June 2013 and 30 June 2012.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

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

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 34. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding	
		2013 %	2012 %
ASDM Holdings Pty Limited	Australia	100.00	100.00
Advanced Surgical Design & Manufacture (UK) Limited	United Kingdom	100.00	100.00

Note 35. Events after the reporting period

An Asset Sale Agreement was entered into with Orthofix Inc on 12 July 2013, the result of which was that the consolidated entity's existing spinal distribution business was acquired by Orthofix Inc's subsidiary Orthofix Australia Pty Ltd ('OA'). This transaction continues the consolidated entity's focus of strengthening the statement of financial position and on its orthopaedic product range in delivering sales growth and profitability.

As part of the agreement, the Orthofix stock was sold to OA for approximately \$2,556,000 and the consolidated entity was able to fully settle its payable with Orthofix Inc for the amount of \$2,546,000. This transaction will result in a gain of \$203,000 in the financial year ending 30 June 2014.

No other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 36. Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	2013 \$'000	2012 \$'000
Loss after income tax expense for the year	(571)	(173)
Adjustments for:		
Depreciation and amortisation	1,013	941
Foreign exchange differences	(45)	(2)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	269	(670)
Decrease/(increase) in inventories	137	(2,729)
Decrease/(increase) in income tax refund due	61	(605)
Decrease in deferred tax assets	-	425
Increase in prepayments	(26)	(40)
Increase/(decrease) in trade and other payables	(235)	3,317
Decrease in other provisions	(74)	(40)
Net cash from operating activities	<u>529</u>	<u>424</u>

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 37. Earnings per share

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Earnings per share from continuing operations</i>		
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	<u>(488)</u>	<u>(209)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>38,418,751</u>	<u>35,298,996</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>38,418,751</u>	<u>35,298,996</u>
	Cents	Cents
Basic earnings per share	(1.27)	(0.59)
Diluted earnings per share	(1.27)	(0.59)
<i>Earnings per share from discontinued operations</i>		
Profit/(loss) after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	<u>(83)</u>	<u>36</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>38,418,751</u>	<u>35,298,996</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>38,418,751</u>	<u>35,298,996</u>
	Cents	Cents
Basic earnings per share	(0.22)	0.10
Diluted earnings per share	(0.22)	0.10

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 37. Earnings per share (continued)

	Consolidated	
	2013	2012
	\$'000	\$'000
<i>Earnings per share for loss</i>		
Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited	<u>(571)</u>	<u>(173)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>38,418,751</u>	<u>35,298,996</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>38,418,751</u>	<u>35,298,996</u>
	Cents	Cents
Basic earnings per share	(1.49)	(0.49)
Diluted earnings per share	(1.49)	(0.49)

Options granted to employees under the Employee Option Plan for year ended 30 June 2013 and prior years are not included in the determination of diluted earnings per share because they are anti-dilutive for the year. These options could potentially dilute basic earnings per share in the future. The options have not been included in the determination of basic earnings per share.

Note 38. Share-based payments

The consolidated entity has an Employee Share Option Plan ('Option Plan') which was approved by shareholders at an Extraordinary General Meeting held in May 2006. Key management personnel's long-term incentives can be way of participation in the Option Plan. This long term incentive program aligns the interests of key management personnel more closely with those of company's shareholders and rewards sustained superior performance.

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

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

There were no options issued during the year.

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

2013

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/07/07	05/12/12	\$0.50	206,000	-	-	(206,000)	-
16/11/07	16/11/13 *	\$0.60	200,000	-	-	-	200,000
26/03/10	30/06/13 *	\$0.60	8,000	-	-	(8,000)	-
			414,000	-	-	(214,000)	200,000

Advanced Surgical Design & Manufacture Limited
Notes to the financial statements
30 June 2013

Note 38. Share-based payments (continued)

2012

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/07/07	30/06/12 *	\$0.50	254,000	-	-	(254,000)	-
01/07/07	05/12/12 *	\$0.50	206,000	-	-	-	206,000
16/11/07	16/11/13 *	\$0.60	200,000	-	-	-	200,000
26/03/10	30/06/13	\$0.60	20,000	-	-	(12,000)	8,000
			<u>680,000</u>	<u>-</u>	<u>-</u>	<u>(266,000)</u>	<u>414,000</u>

* At the reporting date 200,000 (2012: 406,000) options were fully vested.

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.38 years (2012: 1.57 years).

Advanced Surgical Design & Manufacture Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Kazacos
Director

30 August 2013
Sydney



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

Report on the financial report

We have audited the accompanying financial report of Advanced Surgical Design & Manufacture Limited (the company), which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Advanced Surgical Design & Manufacture Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
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Liability limited by a scheme approved under Professional Standards Legislation.



Auditor's opinion

In our opinion:

- (a) the financial report of Advanced Surgical Design & Manufacture Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 12 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

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

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'James McElvogue'.

James McElvogue
Partner

Sydney
30 August 2013

Advanced Surgical Design & Manufacture Limited
Shareholder information
30 June 2013

The shareholder information set out below was applicable as at 22 August 2013.

Distribution of equitable securities

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

	Number of holders of ordinary shares
1 to 1,000	11
1,001 to 5,000	145
5,001 to 10,000	87
10,001 to 100,000	107
100,001 and over	33
	<hr/>
	383
	<hr/> <hr/>
Holding less than a marketable parcel	180
	<hr/> <hr/>

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
ROBINWOOD INVESTMENTS PTY LTD	7,781,939	17.79
CRYPTYCH PTY LTD	7,067,856	16.15
WELSH SUPERANNUATION PTY LIMITED	6,600,000	15.09
MARIE CAROLL & DAWSON CAROLL	5,636,285	12.88
MERGIN INVESTMENTS PTY LTD <M&V CROSS SUPER FUND A/C>	2,332,857	5.33
MR THOMAS JAMES CARROLL	1,000,000	2.29
MR KENNETH CAMPBELL	1,000,000	2.29
MISTY HILLS NOMINEES PTY LTD	892,857	2.04
MR ANTHONY GEOFFREY HARTNELL & MRS MARYED HARTNELL <HARTNELL RETIREMENT FUND A/C>	580,204	1.33
DESTIN PTY LIMITED	572,000	1.31
PETER WELSH	473,685	1.08
MS NICOLE FAITH ROGER	403,334	0.92
CRYPTYCH PTY LTD <CRYPTYCH SUPER FUND>	355,000	0.81
GEGM INVESTMENTS PTY LTD	353,000	0.81
SIMON ROBERTS	309,358	0.71
TOM MILICEVIC	303,334	0.69
LESLIE HARRY CROSS	300,000	0.69
JOHN O'MEARA & MARGARET O'MEARA	300,000	0.69
ASGARD CAPITAL MANAGEMENT LTD <1052744 WOOD SUPER FUND A/C>	286,000	0.65
DESMOND J BOKOR PTY LIMITED	286,000	0.65
	<hr/>	
	36,833,709	84.20
	<hr/> <hr/>	

Advanced Surgical Design & Manufacture Limited
Shareholder information
30 June 2013

Unquoted equity securities

	Number on issue	Number of holders
Options issued to Tom Milicevic under the Company's Employee Share Option Plan, exercisable at 60 cents and expiring 16 November 2013	200,000	1

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Robinwood Investments Pty Ltd	8,747,424	19.99
Cryptych Pty Ltd and Gregory James Roger	7,946,190	18.16
Peter Welsh and Welsh Superannuation Pty Limited	7,073,285	16.17
Marie Caroll & Dawson Caroll	5,636,285	12.88
Mergin Investments Pty Ltd	2,332,857	5.33

Voting rights

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

Ordinary shares

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

Options

No voting rights.

Share buy-back

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

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/corporate/InvestorServices/FAQ-Guide.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.

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

There are no other classes of equity securities.