# Advanced Surgical Design & Manufacture Limited

**ABN 71 066 281 132**

## Annual Report - 30 June 2012

**Advanced Surgical Design & Manufacture Limited**
**Corporate directory**
**30 June 2012**

| | | |
|---|---|---|
| Directors | Peter Kazacos B.E, B.Sc<br>John O'Meara<br>Peter Welsh | |
| Company secretary | Richard Ulrick BA, LLB, Dip Fin Mgt, FCIS, CPA | |
| Notice of annual general meeting | The annual general meeting of Advanced Surgical Design & Manufacture Limited: | |
| | will be held at | Unit 2<br>12 Frederick Street<br>St Leonards NSW 2065 |
| | time<br>date | 11:00 AM<br>Thursday 29 November 2012 |
| Registered office | Unit 2<br>12 Frederick Street<br>St Leonards NSW 2065<br>Head office telephone: 02 9439 4448 | |
| Principal place of business | Unit 2<br>12 Frederick Street<br>St Leonards NSW 2065 | |
| Share register | Link Market Services Limited<br>Level 12<br>680 George Street<br>Sydney NSW 2000<br>Shareholders enquiries: 02 8280 7111 | |
| Auditor | PricewaterhouseCoopers<br>Darling Park Tower 2<br>201 Sussex Street<br>Sydney NSW 2000 | |
| Bankers | Commonwealth Bank of Australia<br>PO Box 327<br>Silverwater NSW 2128 | |
| Stock exchange listing | Advanced Surgical Design & Manufacture Limited shares are listed on the Australian Securities Exchange (ASX code: AMT) | |
| Website address | www.asdm.com.au | |

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Advanced Surgical Design & Manufacture Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2012.

## 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 (appointed on 22 November 2011)
Gregory James Roger (resigned on 26 March 2012)

## Principal activities

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

## Dividends

There were no dividends paid 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 $173,000 (30 June 2011: $3,265,000).

*Revenue*

Total revenue for the year ended 30 June 2012 ("FY12") was $8.7m, representing an increase of 18% from the 2011 financial year ("FY11"). The addition of new product lines during FY12 has complemented our existing range and will assist us in continuing to drive growth through our current and newly developed sales channels.

*Net profit from ordinary activities*

The consolidated entity's earnings before interest, tax, depreciation and amortisation ('EBITDA') in FY12 was a profit of $0.9m compared to loss of $1.7m in FY11.

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.

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **EBITDA** | 862 | (1,743) |
| Less: Depreciation and amortisation | (941) | (1,035) |
| Less: Finance cost | (284) | (230) |
| Add: Interest income | 10 | 19 |
| **Loss before income tax (expense)/benefit** | (353) | (2,989) |
| Income tax (expense)/benefit | 180 | (276) |
| **Loss after income tax (expense)/benefit** | (173) | (3,265) |

During FY12, the company continued its focus on streamlining the manufacturing processes and the use of resources resulted in a stronger margin with future improvements aimed at continuing this trend.

Corporate and administration expenses have been tightly managed with a number of initiatives not renewed from prior year. During FY11, the consolidated entity completed a corporate strategic review at a cost of $0.2m and in addition, considering the financial instability in Europe provided for $0.1m in bad debts and recognised an impairment charge of $0.6m for the goodwill recorded on the UK business.

During FY12, our research and development focus was aligned to support our core orthopaedic products and customers with our expenses decreasing by approximately $0.7m to $1.3m (30 June 2011: $2.0m). The two components which support our research and development expenses are Orthopaedic and Vascular. During the year the majority of work focused around the orthopaedic product category as the Vascular project, Peripheral Access Device (“PAD”) continued under the clinical trial monitoring program.

Net loss after tax was $0.2m (30 June 2011: $3.3m). This result is after the expensing of all research and development related expenses.

*Cash position*
The cash balance at 30 June 2012 was an overdraft of $0.2m (30 June 2011: $0.2m), with operating cash flow performance improving significantly during the second half of the financial year.

As we focused on our product acquisition strategy during the year, cash commitments for stock and instruments sets for new products was a significant drain on cash reserves. Sales of our new categories are providing greater opportunities through the sales channel and resulting in a residual benefit to our core in-house manufactured products. With continued cost control and sales growth through new products operating cash flow improvements are anticipated in FY13.

*Outlook*
FY12 was a transitional year with a significantly improved financial result. We are however, still short of one of our goals, that being dividend payments. We continue to work towards this as an outcome but timing at this stage is not predictable. FY12 has placed us in a stronger position, with our objective to deliver continued revenue growth and profit in 2013.

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 through customer focus, responsiveness and leveraging our capabilities.

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

## Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 30 June 2012 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: | Mr Kazacos has over 37 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 (previously known as Hostech Limited), representing a major strategic milestone in the transformation and convergence of the IT&T industry. Prior to founding KAZ and Anittel, Mr Kazacos held a number of senior technical positions in the Australian IT industry with leading Australian organisations. Mr Kazacos was the recipient of the inaugural Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category. |
| 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 |

| | |
|---|---|
| Name: | John O'Meara |
| Title: | Non-Executive Director |
| Experience and expertise: | Mr O'Meara is an energetic business leader with over 27 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 (appointed on 22 November 2011) |
| Title: | Executive Director and Managing Director (from 26 March 2012) |
| Experience and expertise: | Mr. Welsh has 43 years' experience in the medical device and health care industry. The last 28 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: | |
| Interests in shares: | 7,133,132 ordinary shares |
| Interests in options: | None |

| | |
|---|---|
| Name: | Dr Gregory James Roger (resigned on 26 March 2012) |
| Title: | Former Executive Director and Former Chief Executive Officer |
| Qualifications: | MB BS, M Eng (Res) |
| Experience and expertise: | Associated Professor Dr Roger, following his Medical Degree at Sydney University and Internship at Royal North Shore Hospital, undertook a Masters degree in Engineering at Sydney University in order to start solving Medical Device design problems. Dr Roger went on to acquire a history of medical device innovation including co-designing and developing both the RCI screw, now sold through Smith and Nephew and the highly successful Active Knee prosthesis. The company he founded to produce Medical Devices, ASDM has also helped the designs and inventions of Australian surgeons and inventors to achieve commercialisation. He has received numerous awards including the Clunies Ross Award, the Warren Centre Hero of Innovation Award, the Engineers Australia Sydney Division Entrepreneur of the Year and Sydney University Faculty of Engineering’s Alumnus of the Year. Dr Roger resigned as a director on 26 March 2012 but leads the Clinical Advisory Committee. |
| Other current directorships: | Not applicable as no longer a director |
| Former directorships (in the last 3 years): | Not applicable as no longer a director |
| Special responsibilities: | Not applicable as no longer a director |
| Interests in shares: | Not applicable as no longer a director |
| Interests in options: | Not applicable as no longer a director |

'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 27 years’ experience in company secretarial and general counsel roles.

## Meetings of directors

The number of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2012, 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 | 3 | 3 |
| John O'Meara | 10 | 11 | 2 | 3 | 3 | 3 |
| Peter Welsh | 8 | 8 | 1 | 1 | 2 | 2 |
| Dr Gregory James Roger | 6 | 7 | 2 | 2 | 2 | 2 |

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 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 is being more 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 key management personnel;
- The ability of key management personnel to control performance; and
- The consolidated entity's earnings company and share price performance.

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

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

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

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

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

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

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

Non-executive directors generally do not receive share options. 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.

*Executive directors remuneration*
No director's fees were paid to Dr Roger in addition to his remuneration as Chief Executive Officer. No payments were made to Dr Roger upon his ceasing to be Chief Executive Officer other than his statutory entitlements. Mr Peter Welsh receives no payment as Managing Director.

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

*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.

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 2012 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, since 1 July 2008.

*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 Committee is available to senior executives during the annual review. This target ensures variable reward is only available when value has been created for shareholders and when earnings are consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out-performance.

50% of each executive’s STI is allocated to overall 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 has been intended to be provided to key management personnel other than non-executive directors as options over ordinary shares of the company under the rules of the Employee Share Option Plan. The directors have 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 exercise the options will generally be conditional on the individual achieving certain performance hurdles, such as service conditions and the achievement of key performance indicators. However, options may be granted on whatever terms are required and appropriate to secure the services of key management personnel. The Nomination and Remuneration Committee is required to approve the number of options that ultimately vest. The performance benchmarks are intended to measure relative performance and provide rewards for materially improved consolidated entity performance. The options will be structured with a view to minimising any ‘short-termism’ approach on the part of executives.

Accordingly, it is proposed that the right to be granted shares conditional upon the individual achieving similar performance hurdles will form the basis for the provision of long-term incentives to key management personnel in the future.

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.

### *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 executives:

- Richard Ulrick - Company Secretary
- Tom Milicevic - Acting Chief Executive Officer and Chief Financial Officer
- Jari Hyvarinen - Chief Operating Officer

| 2012 | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Bonus $ | Non-monetary $ | Super-annuation $ | Long service leave $ | Equity-settled $ | Total $ |
| *Non-Executive Directors:* | | | | | | | |
| Peter Kazacos (Chairman) | 46,890 | - | - | - | - | - | 46,890 |
| John O'Meara | 15,000 | - | - | - | - | - | 15,000 |
| *Executive Directors:* | | | | | | | |
| Dr Gregory James Roger [(1)] | 207,838 | - | - | 15,847 | 48,748 | - | 272,433 |
| *Other Key Management Personnel:* | | | | | | | |
| Richard Ulrick | 44,100 | - | - | - | - | - | 44,100 |
| Tom Milicevic | 194,482 | - | - | 17,556 | 4,448 | - | 216,486 |
| Jari Hyvarinen | 171,255 | - | - | 15,237 | 6,384 | - | 192,876 |
| | 679,565 | - | - | 48,640 | 59,580 | - | 787,785 |

[(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 year.

| **2011** | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Bonus $ | Non-monetary $ | Super-annuation $ | Long service leave $ | Equity-settled $ | Total $ |
| *Non-Executive Directors:* | | | | | | | |
| Peter Kazacos (Chairman) | 62,520 | - | - | - | - | - | 62,520 |
| John O'Meara | 20,000 | - | - | - | - | - | 20,000 |
| Walter Kmet (1) | 13,333 | - | - | - | - | - | 13,333 |
| *Executive Directors:* | | | | | | | |
| Dr Gregory James Roger | 211,717 | - | - | 18,838 | - | - | 230,555 |
| *Other Key Management Personnel:* | | | | | | | |
| Richard Ulrick | 37,650 | - | - | - | - | - | 37,650 |
| Tom Milicevic | 190,510 | - | - | 16,992 | 2,943 | 7,200 | 217,645 |
| Jari Hyvarinen | 159,587 | - | - | 14,167 | 7,376 | - | 181,130 |
| | 695,317 | - | - | 49,997 | 10,319 | 7,200 | 762,833 |

No director's fees were paid to Michael Spooner. Consulting fees of $175,000 were paid instead to an entity related to Michael Spooner, who resigned as a director on 16 February 2011.

(1) Director until resignation on 5 November 2010.

It is noted that as the date of this report any payment to directors are suspended pending the future performance of the company.

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

| | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|---|---|---|---|---|---|---|
| Name | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| *Non-Executive Directors:* | | | | | | |
| Peter Kazacos | 100% | 100% | - % | - % | - % | - % |
| John O'Meara | 100% | 100% | - % | - % | - % | - % |
| Walter Kmet | - % | 100% | - % | - % | - % | - % |
| *Executive Directors:* | | | | | | |
| Dr Gregory James Roger | 100% | 100% | - % | - % | - % | - % |
| *Other Key Management Personnel:* | | | | | | |
| Richard Ulrick | 100% | 100% | - % | - % | - % | - % |
| Tom Milicevic | 100% | 97% | - % | - % | - % | 3% |
| Jari Hyvarinen | 100% | 100% | - % | - % | - % | - % |

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

| | Cash bonus paid/payable | | Cash bonus forfeited | |
|---|---|---|---|---|
| Name | 2012 | 2011 | 2012 | 2011 |
| *Executive Directors:* | | | | |
| Dr Gregory James Roger | - % | - % | 100% | 100% |
| *Other Key Management Personnel:* | | | | |
| Richard Ulrick | - % | - % | 100% | 100% |
| Tom Milicevic | - % | - % | 100% | 100% |
| Jari Hyvarinen | - % | - % | 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: | Dr Gregory James Roger |
| Title: | Chief Executive Officer (until resignation on 26 March 2012). |
| Details: | Dr Roger's term of employment commenced on 9 May 2006 and ends on the later of 30 June 2012 and the expiration of three months' notice by either party. His remuneration is reviewed annually. Dr Roger is entitled to receive, subject to shareholder approval, yearly grants of options related to achievement of budgeted EBITDA or any other performance criteria to be set by the Board and notified to him annually. The consolidated entity may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Dr Roger's services early. Dr Roger has undertaken not to engage in competitive conduct with the consolidated entity for the term of the agreement and for a further period of up to 12 months thereafter. |

| | |
|---|---|
| Name: | Tom Milicevic |
| Title: | Acting Chief Executive Officer and Chief Financial Officer |
| Details: | Mr Milicevic's employment commenced on 15 October 2007 and may be terminated by either party on giving 3 months' notice. His remuneration is reviewed annually. The consolidated entity may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Mr Milicevic's services early. Mr Milicevic has undertaken not to engage in competitive conduct with the consolidated entity for the term of the agreement and for a further period of up to 12 months thereafter. |

| | |
|---|---|
| Name: | Jari Hyvarinen |
| Title: | Chief Operating Officer |
| Details: | Mr Hyvarinen's employment as Chief Operating Officer commenced on 1 July 2008 and may be terminated by either party on giving 1 month notice. His remuneration is reviewed annually. The consolidated entity may make a payment equivalent to his remuneration for the unexpired period of any notice to terminate should it wish to terminate Mr Hyvarinen's services early. |

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

### *D Share-based compensation*

*Issue of shares*
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012.

*Options*
The terms and conditions of each grant of options affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|---|---|---|---|---|
| 1 July 2007 | 30 June 2009 | 30 June 2012 | $0.50 | $0.360 |
| 1 July 2007 | 1 July 2007 | 5 December 2012 | $0.50 | $0.370 |
| 16 November 2007 | 16 November 2010 | 16 November 2013 | $0.60 | $0.370 |
| 26 March 2010 | 1 July 2011 | 30 June 2013 | $0.60 | $0.250 |

Options granted carry no dividend or voting rights.

There were no options granted to or exercised by directors and other key management personnel as part of compensation during the year ended 30 June 2012.

### *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 four years to 30 June 2012 are summarised below:

| | 2009<br>$'000 | 2010<br>$'000 | 2011<br>$'000 | 2012<br>$'000 |
|---|---|---|---|---|
| Sales revenue | 6,409 | 7,470 | 7,370 | 8,669 |
| Earnings Before Interest, Tax, Depreciation and Amortisation ( 'EBITDA' ) | (700) | 1,236 | (1,743) | 862 |

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

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Share price at financial year end ($A) | 0.30 | 0.43 | 0.27 | 0.15 |
| Total dividends declared (cents per share) | 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 2012 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 |
|---|---|---|---|
| 1 July 2007 | 5 December 2012 | $0.50 | 206,000 |
| 15 November 2007 | 16 November 2013 | $0.60 | 200,000 |
| 26 March 2010 | 30 June 2013 | $0.60 | 8,000 |
| | | | 414,000 |

### 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 2012.

### 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 $26,318 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 27 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 27 to the financial statements do not compromise the external auditor's independence 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 PricewaterhouseCoopers**

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

**Rounding of amounts**

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

**Auditor's independence declaration**

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

**Auditor**

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

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

On behalf of the directors

Peter Kazacos
Director

28 September 2012
Sydney

# Auditor's Independence Declaration

As lead auditor for the audit of Advanced Surgical Design & Manufacture Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, the only contravention of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit,

*is set out below*

The previous lead auditor while being ineligible to do so played a significant role in the review of Advanced Design & Manufacture Limited for the half ended 31 December 2011. On becoming aware of this matter the previous lead auditor ceased acting in this role within four days. These matters were identified as part of our on-going quality control system. All reasonable steps were undertaken to ensure that these matters were resolved as soon as possible. I report that all matters have been resolved by the appointment of a new lead auditor and in doing so do not believe these matters have impacted my objectivity and impartiality for the purpose of this audit.

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

James McElvogue
Partner
PricewaterhouseCoopers

Sydney
28 September 2012

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

Advanced Surgical Design & Manufacture Limited 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 2011-12 financial year have been followed with one exception. 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 for the whole year. Until the appointment of Mr Peter Welsh as a member of the Audit & Risk Committee with effect from 23 February 2012 following his appointment as a director, the Committee only had 2 members being the only non-executive directors of the Board. This had been considered appropriate having regard to the size of the Board and the company's operations. However, upon Mr Welsh becoming Managing Director following the resignation of Dr Greg Roger as Managing Director on 26 March 2012, the Committee no longer consisted only of non-executive directors. As a result of the separation of the roles of Managing Director and Chief Executive Officer this was considered preferable to reverting to a Committee of 2 members.

The company's policies are regularly reviewed to ensure that they remain current and in accordance with good practice appropriate for the company's business environment 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 three and no more than ten, with a broad range of expertise.

The company currently has three directors: two non-executive directors, Mr Peter Kazacos, the Chairman of the Board and Mr John O'Meara in addition to one executive director, Mr Peter Welsh, the Managing Director. The experience and tenure of the directors are set out in the Directors' Report on pages 4 and 5. 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 Managing Director and executive management. 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 another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. has within the last three years been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is a material supplier or customer of the company or other group member, 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 another group member 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 note 30 to the financial statements.

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

*Corporate reporting*
The Managing Director and the Chief Financial Officer give an annual written declaration to the Board that in their opinion the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001, the company's financial statements and the notes to those statements for the financial year comply with accounting standards and present a true and fair view of the company's financial condition and operational results. They have confirmed in writing to the Board that this declaration in relation to the 2011-12 financial years is

founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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

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

The Board currently holds approximately ten scheduled meetings each year, in addition to strategy and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise. Details of the number of meetings held by the Board, together with the number of meetings attended by each director are contained on page 6.

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 & Remuneration Committee**

*Composition*
The Nomination & 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 on pages 4 and 5 of the Directors' Report.

*Meetings and reporting*
The Nomination & Remuneration Committee is scheduled to meet a minimum three times per annum. Details of attendance at committee meetings are set out on page 6 in the table of directors' meetings. All committee minutes are tabled at Board meetings for review.

*Responsibilities*
The responsibilities of the Nomination & Remuneration Committee include reviewing Board succession plans, evaluating Board performance and making recommendations to the Board on executive remuneration packages, policies and incentives and remuneration framework for directors.
The 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 & Remuneration Committee's charter is posted on the company's website under "Corporate Governance".

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

*New Directors*
The 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 & Remuneration Committee, bearing in mind the fiscal constraints facing the company, is seeking 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 & Remuneration Committee, has established performance criteria for the Chief Executive Officer and conducts a performance review of the CEO at least annually. The Managing Director 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 2011-12 financial year for the Managing Director and senior executives is discussed in the Remuneration Report section of the Directors' Report.

*Remuneration*
Details of the remuneration of executives and directors and the company's remuneration objectives and policies are set out in the Remuneration Report on pages 6 to 13.

**Audit & Risk Committee**

The role of the Audit & Risk Committee is set out in a formal charter approved by the Board. This charter is available on the company website under "Corporate Governance" 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 & Risk Committee now comprises Messrs John O'Meara and Peter Kazacos who are non-executive independent Directors and Mr Peter Welsh, the Managing Director. 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 on pages 4 and 5 of the Directors' Report.

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

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

All committee minutes are tabled at Board meetings for review.

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

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

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

In accordance with the Committee's charter the external audit engagement partner was rotated during the year.

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

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

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

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

*Diversity Policy*
The Board recognises the value and importance of diversity, including with respect to gender, ethnicity, geographical location, personal attributes and age. Following a recommendation from the Nomination & Remuneration Committee the company has established a Diversity Policy complying with the ASX Guidelines.

A copy of the Policy 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.

There are currently no women on the Board but the process under way 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. Accordingly, its objective 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 continues to be monitored with a view to reassessing as circumstances warrant. This forms a KPI for the Board, Managing Director, Chief Executive Officer and senior executives. 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.

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

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

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

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

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

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

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

## Contents



## General information

The financial 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 28 September 2012. The directors have the power to amend and reissue the financial report.

**Advanced Surgical Design & Manufacture Limited**
**Statement of comprehensive income**
**For the year ended 30 June 2012**

| | Note | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|---|
| **Revenue** | 4 | 8,669 | 7,370 |
| Other income | 5 | 38 | 5 |
| **Expenses** | | | |
| Cost of sales and purchases of consumables | | (3,515) | (3,293) |
| Corporate and administration expenses | | (2,319) | (3,153) |
| Quality and research and development expenses | | (1,297) | (1,952) |
| Sales and marketing expense | | (1,645) | (1,736) |
| Finance costs | 6 | (284) | (230) |
| **Loss before income tax (expense)/benefit** | | (353) | (2,989) |
| Income tax (expense)/benefit | 7 | 180 | (276) |
| **Loss after income tax (expense)/benefit for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited** | 23 | (173) | (3,265) |
| **Other comprehensive income** | | | |
| Foreign currency translation | | (2) | 80 |
| Other comprehensive income for the year, net of tax | | (2) | 80 |
| **Total comprehensive income for the year attributable to the owners of Advanced Surgical Design & Manufacture Limited** | | (175) | (3,185) |
| | | **Cents** | **Cents** |
| Basic earnings per share | 35 | (0.49) | (9.25) |
| Diluted earnings per share | 35 | (0.49) | (9.25) |

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

**Advanced Surgical Design & Manufacture Limited**
**Statement of financial position**
**As at 30 June 2012**

| | Note | Consolidated 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 1 | 16 |
| Trade and other receivables | 9 | 1,797 | 1,062 |
| Inventories | 10 | 5,597 | 2,868 |
| Income tax refund due | 11 | 605 | - |
| Total current assets | | 8,000 | 3,946 |
| **Non-current assets** | | | |
| Receivables | 12 | 192 | 217 |
| Property, plant and equipment | 13 | 3,159 | 3,682 |
| Intangibles | 14 | 256 | 278 |
| Deferred tax | 15 | - | 462 |
| Total non-current assets | | 3,607 | 4,639 |
| **Total assets** | | 11,607 | 8,585 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 4,517 | 1,200 |
| Borrowings | 17 | 887 | 651 |
| Provisions | 18 | 129 | 183 |
| Total current liabilities | | 5,533 | 2,034 |
| **Non-current liabilities** | | | |
| Borrowings | 19 | 1,700 | 1,979 |
| Provisions | 20 | 339 | 325 |
| Total non-current liabilities | | 2,039 | 2,304 |
| **Total liabilities** | | 7,572 | 4,338 |
| **Net assets** | | 4,035 | 4,247 |
| **Equity** | | | |
| Issued capital | 21 | 8,818 | 8,855 |
| Reserves | 22 | 566 | 568 |
| Accumulated losses | 23 | (5,349) | (5,176) |
| **Total equity** | | 4,035 | 4,247 |

*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 2012**

| | Issued capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2010 | 8,915 | 481 | (1,911) | 7,485 |
| Loss after income tax (expense)/benefit for the year | - | - | (3,265) | (3,265) |
| Other comprehensive income for the year, net of tax | - | 80 | - | 80 |
| Total comprehensive income for the year | - | 80 | (3,265) | (3,185) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments | - | 7 | - | 7 |
| Tax effect on transaction costs arising on share issue | (60) | - | - | (60) |
| Balance at 30 June 2011 | 8,855 | 568 | (5,176) | 4,247 |

| | 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)/benefit 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) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Tax effect on transaction costs arising on share issue | (37) | - | - | (37) |
| Balance at 30 June 2012 | 8,818 | 566 | (5,349) | 4,035 |

*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 2012**

| | Note | Consolidated 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 8,893 | 7,939 |
| Payments to suppliers and employees (inclusive of GST) | | (8,195) | (8,872) |
| | | 698 | (933) |
| Interest received | | 10 | 19 |
| Interest and other finance costs paid | | (284) | (230) |
| Net cash from/(used in) operating activities | 34 | 424 | (1,144) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 13 | (356) | (482) |
| Payments for intangibles | 14 | (40) | (50) |
| Net cash used in investing activities | | (396) | (532) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings - third party | | - | 1,859 |
| Proceeds from borrowings - related party | | 200 | 570 |
| Repayment of lease liabilities | | (239) | (1,648) |
| Net cash from/(used in) financing activities | | (39) | 781 |
| Net decrease in cash and cash equivalents | | (11) | (895) |
| Cash and cash equivalents at the beginning of the financial year | | (172) | 723 |
| Cash and cash equivalents at the end of the financial year | 8 | (183) | (172) |

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

## Note 1. Significant accounting policies

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

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

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

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

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

*AASB 124 Related Party Disclosures (December 2009)*
The consolidated entity has applied AASB 124 (revised) from 1 July 2011. The revised standard simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. A subsidiary and an associate with the same investor are related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

**Note 1. Significant accounting policies (continued)**

*AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*
The consolidated entity has applied AASB 2010-6 amendments from 1 July 2011. These amendments add and amended disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. Additional disclosures are now required when (i) an asset is transferred but is not derecognised; and (ii) when assets are derecognised but the consolidated entity has a continuing exposure to the asset after the sale.

*AASB 1054 Australian Additional Disclosures*
The consolidated entity has applied AASB 1054 from 1 July 2011. The standard sets out the Australian-specific disclosures as a result of Phase I of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

*AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*
The consolidated entity has applied AASB 2011-1 amendments from 1 July 2011. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRSs') and harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

*AASB 1048 Interpretation of Standards (revised)*
The consolidated entity has applied AASB 1048 (revised) for the year ended 30 June 2012. The revised standard identifies the Australian Interpretations and classifies them into two groups: those that correspond to an International Accounting Standards Board ('IASB') Interpretation (Table 1 – international equivalent), and those that do not (Table 2 – domestic interpretations). The standard has been updated to remove old or superseded interpretations and add new interpretations.

## Note 1. Significant accounting policies (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 for the financial year ended 30 June 2012 was $353,000 (2011: $2,989,000) with positive cashflows from operations of $424,000 (FY11: net operating cash outflows of $1,144,000).

• Although net current assets are $2,467,000 (2011: $1,912,000), current liabilities include an amount of $2,510,000. This amount is the maximum amount claimed to be owed to a supplier for the purchase of inventory. Inventory amounting to $574,000 has been agreed to be returned to the supplier and, subsequent to 30 June 2012, of which inventory totalling $382,000 has been returned and the liability reduced by that amount. The consolidated entity currently has insufficient cash and available facilities to pay the creditor. As the product range is a relaunch and with the scale up of stock provided for, sales traction has been lower than anticipated. Management are currently in discussions with the supplier that the balance will be settled as stock is sold by the consolidated entity or returned / redistributed to the supplier or its other distributors.

• The consolidated entity has successfully renegotiated at reporting date an extension in the repayment of a related party loan totalling $570,000 from December 2012 to not before 31 December 2013 but before 30 June 2014.

• The consolidated entity has a bank overdraft facility of $500,000, approximately $184,000 of which was drawn down as at reporting date. The facility is subject to annual review and the directors are not aware of any reason why the facility would not be continued on terms acceptable to the consolidated entity.

• Prior to the reporting date, the consolidated entity purchased stock under a new distribution agreement and financed this via a short term loan with a related party totalling $200,000, which is due for repayment by 31 October 2012. The consolidated entity is in the process of refinancing this short term loan and subsequent to the reporting date has in principle obtained such long term refinancing on acceptable terms.

• Based on current cashflow forecasts, the bank overdraft facilities have sufficient head room to allow the consolidated entity to absorb the peaks and troughs in its working capital requirements assuming the suitable resolution of the supplier negotiations noted above. There is no indication that these banking facilities will be revoked. If the banking facilities were unexpectedly revoked the consolidated entity is confident that alternate sources of funding would become available to the consolidated entity on acceptable terms.

The directors have assessed the financial position of the consolidated entity and the ability of the consolidated entity to improve profitability and cash flow to a point where the consolidated entity can repay the short term debt facilities, and assuming the successful negotiation of the supplier agreement noted above, manage the non-current liabilities and continue to pay creditors as and when they fall due and payable.

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

• Generating positive cash flows from the existing business and the relatively new distribution agreements.

• Achieving a satisfactory outcome to settle the current payable owed to a supplier totalling $2,129,000, net of returns noted above, without the requirement to draw on existing cash reserves or debt facilities, and that the balance will be settled as stock is sold by the consolidated entity or returned / redistributed to the supplier or its other distributors.

• Receiving ongoing support from financers.

## Note 1. Significant accounting policies (continued)

### Going concern (continued)
As a result of these matters there is a material uncertainty that may cast significant doubt on whether the consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and liabilities in the normal course of business and at the amounts stated in the financial statements. However, the directors believe that the consolidated entity will be successful in the above matters and, accordingly, have prepared the financial statements on a going concern basis.

### 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-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 31.

### 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 2012 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.

**Note 1. Significant accounting policies (continued)**

### 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 approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in 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.

### 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.

**Note 1. Significant accounting policies (continued)**

### 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 and 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.

### 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.

**Note 1. Significant accounting policies (continued)**

**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 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 arms 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.

*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 had the impairment not been recognised and is reversed to profit or loss.

**Note 1. Significant accounting policies (continued)**

**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 |
| Instrument sets | 5-7 years |
| Lease make good provision | 2-10 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's 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. 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 intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*
Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

*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 0 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.

## Note 1. Significant accounting policies (continued)

### 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

### 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.

**Note 1. Significant accounting policies (continued)**

*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 36.

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

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

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

**Issued capital**
Ordinary shares are classified as equity.

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

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

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. 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.

## Note 1. Significant accounting policies (continued)

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.

### 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 2012. 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.

**Note 1. Significant accounting policies (continued)**

*AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 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 2013 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. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. 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 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 2010-8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

*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.

*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, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

**Note 1. Significant accounting policies (continued)**

*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 127 Separate Financial Statements (Revised)*
*AASB 128 Investments in Associates and Joint Ventures (Reissued)*
These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

*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 changes the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months and 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 expected to reduce the reported annual leave liability of 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. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

**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 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*
These amendments are applicable to annual reporting periods beginning on or after 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 adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

*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 significant 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) 'Firsttime Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of comprehensive information requirements when an entity provides a third balance sheet 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; AASB 132 'Financial Instruments: Presentation' Clarification of the tax effect of distributions to holders of an equity instrument is recognised in the income statement; 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 significant impact on 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 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.

*Long service leave provision*
As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

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

## 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.

## Note 3. Operating segments (continued)

*Major customers*
During the year ended 30 June 2012 approximately 29% ($2.5m) and 33% ($2.9m) (2011: 25% ($1.8m) and 41% ($3.0m)) of the consolidated entity's external revenue was derived from sales to two major hospital groups.

## Note 4. Revenue

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| *Sales revenue* | | |
| Sale of goods | 8,511 | 7,195 |
| *Other revenue* | | |
| Interest | 10 | 19 |
| Sub-lease rentals | 148 | 156 |
| | 158 | 175 |
| Revenue | 8,669 | 7,370 |

## Note 5. Other income

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Net foreign exchange gain | 32 | - |
| Other income | 6 | 5 |
| Other income | 38 | 5 |

## Note 6. Expenses

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Loss before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Plant and equipment | 325 | 415 |
| Fixtures and fittings | 227 | 208 |
| Leasehold improvements | 33 | 49 |
| Lease make good | 60 | 60 |
| Instrument sets | 234 | 230 |
| Total depreciation | 879 | 962 |
| *Amortisation* | | |
| Website | 19 | 21 |
| Patents and trademarks | 43 | 52 |
| Total amortisation | 62 | 73 |
| Total depreciation and amortisation | 941 | 1,035 |
| *Impairment* | | |
| Goodwill | - | 585 |
| Inventories | 197 | 184 |
| Trade receivables | 142 | 122 |
| Total impairment | 339 | 891 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 284 | 230 |
| *Net foreign exchange loss* | | |
| Net foreign exchange loss | - | 63 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 762 | 697 |
| *Superannuation expense* | | |
| Defined contribution superannuation expense | 238 | 253 |
| *Share-based payments expense* | | |
| Share-based payments expense | - | 7 |
| *Employee benefits expense excluding superannuation* | | |
| Employee benefits expense excluding superannuation | 2,600 | 2,705 |

## Note 7. Income tax expense/(benefit)

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| *Income tax expense/(benefit)* | | |
| Current tax | (605) | - |
| Deferred tax - origination and reversal of temporary differences | 425 | 276 |
| Aggregate income tax expense/(benefit) | (180) | 276 |
| Deferred tax included in income tax expense/(benefit) comprises: | | |
| Decrease in deferred tax assets (note 15) | 425 | 276 |
| *Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate* | | |
| Loss before income tax (expense)/benefit | (353) | (2,989) |
| Tax at the statutory tax rate of 30% | (106) | (897) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Entertainment expenses | 3 | - |
| Impairment of goodwill | - | 175 |
| Share-based payments | - | 2 |
| Concessional research and development expenditure treatment | 403 | (241) |
| Written off of loan - ASDM (UK) Limited | 168 | - |
| Sundry items | (270) | (59) |
| | 198 | (1,020) |
| Current year tax losses not recognised | | 897 |
| Prior year tax losses not recognised now recouped | (198) | - |
| Prior year tax losses previously recognised now not recognised | - | 399 |
| Research and development tax refund | (605) | - |
| Deferred tax asset from prior years derecognised | 462 | - |
| Share raising cost recognised directly in equity | (37) | - |
| Income tax expense/(benefit) | (180) | 276 |
| *Amounts charged directly to equity* | | |
| Deferred tax assets (note 15) | 37 | 60 |
| *Tax losses not recognised* | | |
| Unused tax losses for which no deferred tax asset has been recognised | 5,950 | 6,317 |
| Potential tax benefit @ 30% | 1,785 | 1,895 |

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.

## Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Cash on hand | 1 | 16 |

*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:

| | 2012 | 2011 |
|---|---|---|
| Balances as above | 1 | 16 |
| Bank overdraft (note 17) | (184) | (188) |
| Balance as per statement of cash flows | (183) | (172) |

## Note 9. Current assets - trade and other receivables

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Trade receivables | 1,593 | 1,019 |
| Less: Provision for impairment of receivables | - | (122) |
| | 1,593 | 897 |
| Other receivables | - | 1 |
| Prepayments | 204 | 164 |
| | 1,797 | 1,062 |

*Impairment of receivables*
The consolidated entity has recognised a provision $nil (2011: $122,000) in corporate and administration expenses in profit or loss, in respect of impairment of receivables for the year ended 30 June 2012.

The ageing of the impaired receivables provided for above are as follows:

| | Consolidated | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| 1 to 2 months overdue | - | 47 |
| 3 to 4 months overdue | - | 75 |
| | - | 122 |

## Note 9. Current assets - trade and other receivables (continued)

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

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Opening balance | 122 | - |
| Additional provisions recognised | - | 122 |
| Foreign currency adjustment | (5) | - |
| Receivables written off during the year as uncollectable | (117) | - |
| Closing balance | - | 122 |

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to $102,000 as at 30 June 2012 ($32,000 as at 30 June 2011).

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 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| 1 to 2 months | 100 | 17 |
| 3 to 4 months | 2 | 15 |
| | 102 | 32 |

## Note 10. Current assets - inventories

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Raw materials - at cost | 384 | 422 |
| Work in progress - at cost | 96 | 147 |
| Finished goods - at lower of cost or net realisable value | 5,117 | 2,299 |
| | 5,597 | 2,868 |

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to $197,000 (2011: $184,000). The expense has been included in ‘cost of sales’ in profit or loss.

## Note 11. Current assets - income tax refund due

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Income tax refund due | 605 | - |

## Note 12. Non-current assets - receivables

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Other receivables | 192 | 217 |

*Impaired receivables or receivables past due*

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

## Note 13. Non-current assets - property, plant and equipment

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Plant and equipment - at cost | 6,696 | 6,659 |
| Less: Accumulated depreciation | (5,498) | (5,173) |
| | 1,198 | 1,486 |
| Fixtures and fittings - at cost | 1,780 | 1,763 |
| Less: Accumulated depreciation | (1,129) | (902) |
| | 651 | 861 |
| Leasehold improvements - at cost | 280 | 279 |
| Less: Accumulated depreciation | (257) | (224) |
| | 23 | 55 |
| Lease make good - at cost | 300 | 294 |
| Less: Accumulated depreciation | (260) | (200) |
| | 40 | 94 |
| Instrument sets - at cost | 2,485 | 2,190 |
| Less: Accumulated depreciation | (1,238) | (1,004) |
| | 1,247 | 1,186 |
| | 3,159 | 3,682 |

## Note 13. Non-current assets - property, plant and equipment (continued)

*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 2010 | 1,867 | 725 | 104 | 148 | 1,318 | 4,162 |
| Additions | 34 | 344 | - | 6 | 98 | 482 |
| Depreciation expense | (415) | (208) | (49) | (60) | (230) | (962) |
| Balance at 30 June 2011 | 1,486 | 861 | 55 | 94 | 1,186 | 3,682 |
| Additions | 37 | 17 | 1 | 6 | 295 | 356 |
| Depreciation expense | (325) | (227) | (33) | (60) | (234) | (879) |
| Balance at 30 June 2012 | 1,198 | 651 | 23 | 40 | 1,247 | 3,159 |

*Property, plant and equipment secured under finance leases*
Refer to note 29 for further information on property, plant and equipment secured under finance leases.

## Note 14. Non-current assets - intangibles

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Goodwill - at cost | 585 | 585 |
| Less: Impairment | (585) | (585) |
| | - | - |
| Website - at cost | 121 | 121 |
| Less: Accumulated amortisation | (93) | (74) |
| | 28 | 47 |
| Patents and trademarks - at cost | 512 | 472 |
| Less: Accumulated amortisation | (284) | (241) |
| | 228 | 231 |
| | 256 | 278 |

**Note 14. Non-current assets - intangibles (continued)**

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

| | Goodwill $'000 | Website $'000 | Patents and trademarks $'000 | Total $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Balance at 1 July 2010 | 585 | 68 | 233 | 886 |
| Additions | - | - | 50 | 50 |
| Impairment of assets | (585) | - | - | (585) |
| Amortisation expense | - | (21) | (52) | (73) |
| Balance at 30 June 2011 | - | 47 | 231 | 278 |
| Additions | - | - | 40 | 40 |
| Amortisation expense | - | (19) | (43) | (62) |
| Balance at 30 June 2012 | - | 28 | 228 | 256 |

Impairment tests for goodwill
Goodwill is allocated to the consolidated entity's cash-generating units ('CGUs') identified in accordance to business segment and country of operation. All of the goodwill has been allocated to the consolidated entity's UK operations.

Due to market conditions in the UK, management considered the recoverability of goodwill and determined that it was fully impaired in 2011. The impairment was included in corporate and administration expenses in profit or loss.

**Note 15. Non-current assets - deferred tax**

| | **Consolidated** | |
|---|---|---|
| | **2012 $'000** | **2011 $'000** |
| *Deferred tax asset comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Other provisions and accruals | - | 424 |
| | - | 424 |
| Amounts recognised in equity: | | |
| Transaction costs on share issue | - | 38 |
| | - | 38 |
| Deferred tax asset | - | 462 |
| *Movements:* | | |
| Opening balance | 462 | 798 |
| Charged to profit or loss (note 7) | (425) | (276) |
| Charged to equity | (37) | (60) |
| Closing balance | - | 462 |

## Note 16. Current liabilities - trade and other payables

| | Consolidated | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Trade payables | 3,243 | 445 |
| Accrued expenses | 972 | 403 |
| Other payables | 302 | 352 |
| | 4,517 | 1,200 |

Refer to note 25 for further information on financial instruments.

## Note 17. Current liabilities - borrowings

| | Consolidated | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Bank overdraft | 184 | 188 |
| Related party loans | 200 | - |
| Lease liability | 503 | 463 |
| | 887 | 651 |

Refer to note 19 for further information on assets pledged as security and financing arrangements and note 25 for further information on financial instruments.

## Note 18. Current liabilities - provisions

| | Consolidated | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Employee benefits | 129 | 183 |

## Note 19. Non-current liabilities - borrowings

| | Consolidated | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Related party loans | 570 | 570 |
| Lease liability | 1,130 | 1,409 |
| | 1,700 | 1,979 |

Refer to note 25 for further information on financial instruments.

## Note 19. Non-current liabilities - borrowings (continued)

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

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Bank overdraft | 184 | 188 |
| Lease liability | 1,633 | 1,872 |
| | 1,817 | 2,060 |

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

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Cash and cash equivalents | 1 | 16 |
| Receivables | 1,765 | 1,019 |
| Plant and equipment | 745 | 528 |
| | 2,511 | 1,563 |

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

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Total facilities | | |
| Bank overdraft | 500 | 500 |
| Related party borrowing facility | 770 | 570 |
| Lease liability | 1,633 | 1,872 |
| Business card facility | 15 | 15 |
| | 2,918 | 2,957 |
| Used at the reporting date | | |
| Bank overdraft | 184 | 188 |
| Related party borrowing facility | 770 | 570 |
| Lease liability | 1,633 | 1,872 |
| Business card facility | - | - |
| | 2,587 | 2,630 |
| Unused at the reporting date | | |
| Bank overdraft | 316 | 312 |
| Related party borrowing facility | - | - |
| Lease liability | - | - |
| Business card facility | 15 | 15 |
| | 331 | 327 |

## Note 20. Non-current liabilities - provisions

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Employee benefits | 39 | 31 |
| Lease make good | 300 | 294 |
| | 339 | 325 |

*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 - 2012** | |
| Carrying amount at the start of the year | 294 |
| Additional provisions recognised | 6 |
| Carrying amount at the end of the year | 300 |

## Note 21. Equity - issued capital

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | 2012 Shares | 2011 Shares | 2012 $'000 | 2011 $'000 |
| Ordinary shares - fully paid | 35,298,996 | 35,298,996 | 8,818 | 8,855 |

*Movements in ordinary share capital*

| Details | Date | No of shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2010 | 35,298,996 | | 8,915 |
| Less: Tax effect on transaction costs arising on share issue | 30 June 2011 | - | | (60) |
| Balance | 30 June 2011 | 35,298,996 | | 8,855 |
| Less: Tax effect on transaction costs arising on share issue | | - | | (37) |
| Balance | 30 June 2012 | 35,298,996 | | 8,818 |

*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.

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.

## Note 21. Equity - issued capital (continued)

*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 2011 Annual Report.

## Note 22. Equity - reserves

| | Consolidated | |
|---|---|---|
| | 2012 $'000 | 2011 $'000 |
| Foreign currency reserve | 45 | 47 |
| Share-based payments reserve | 521 | 521 |
| | 566 | 568 |

| | Foreign currency $'000 | Share-based payments $'000 | Total $'000 |
|---|---|---|---|
| **Consolidated** | | | |
| Balance at 1 July 2010 | (33) | 514 | 481 |
| Foreign currency translation | 80 | - | 80 |
| Share-based payments | - | 7 | 7 |
| Balance at 30 June 2011 | 47 | 521 | 568 |
| Foreign currency translation | (2) | - | (2) |
| Balance at 30 June 2012 | 45 | 521 | 566 |

*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 23. Equity - accumulated losses

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Accumulated losses at the beginning of the financial year | (5,176) | (1,911) |
| Loss after income tax (expense)/benefit for the year | (173) | (3,265) |
| Accumulated losses at the end of the financial year | (5,349) | (5,176) |

## Note 24. Equity - dividends

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

*Franking credits*

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 320 | 320 |

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

## Note 25. 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 ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk***

*Foreign currency risk*
The consolidated entity undertakes certain transactions denominated in foreign currency and 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.

**Note 25. Financial instruments (continued)**

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 | |
|---|---|---|---|---|
| | **2012 $'000** | **2011 $'000** | **2012 $'000** | **2011 $'000** |
| **Consolidated** | | | | |
| Euros | - | 90 | 5 | 57 |
| New Zealand dollars | 59 | - | - | - |
| Swiss Francs | - | - | 9 | 16 |
| US Dollars | - | 26 | 2,759 | 143 |
| | 59 | 116 | 2,773 | 216 |

The consolidated entity had net liabilities denominated in foreign currencies of $2,714,000 (assets $59,000 less liabilities $2,773,000) as at 30 June 2012 (2011: net current liabilities of $100,000 (assets $116,000 less liabilities $216,000)). Based on this exposure, had the Australian Dollar weakened/strengthened by 10% (2011: 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 $271,400 higher / lower (2011: $10,000 higher / lower) and equity would have been $271,400 higher / lower (2011: $10,000 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 2012 was $32,000 (2011: loss of $63,000).

*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 $1,935,000 (2011: $1,950,000), are principal and interest payment loans. The minimum principal repayments of $401,000 (2011: $399,000) are due during the year ending 30 June 2013 (2011: 30 June 2012) for these loans.

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

***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.

**Note 25. Financial instruments (continued)**

*Financing arrangements*
Unused borrowing facilities at the reporting date:

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Bank overdraft | 316 | 312 |
| Business card facility | 15 | 15 |
| | 331 | 327 |

The bank overdraft facilities may be drawn at any time and is subject to an annual review by the bank. The overdraft is secured by a first registered mortgage over the assets and undertakings of the company and the $185,422 rent deposit included in other receivables (Note 12).

*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 - 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** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 3,243 | - | - | - | 3,243 |
| Accrued expenses | - | 972 | - | - | - | 972 |
| Other payables | - | 302 | - | - | - | 302 |
| *Interest-bearing - variable* | | | | | | |
| Bank overdraft | 13.40 | 196 | - | - | - | 196 |
| *Interest-bearing - fixed rate* | | | | | | |
| 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 | | 5,620 | 1,196 | 745 | - | 7,561 |

**Note 25. Financial instruments (continued)**

| Consolidated - 2011 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 445 | - | - | - | 445 |
| Accrued expenses | - | 403 | - | - | - | 403 |
| Other payables | - | 352 | - | - | - | 352 |
| | | | | | | |
| *Interest-bearing - variable* | | | | | | |
| Bank overdraft | 13.85 | 201 | - | - | - | 201 |
| | | | | | | |
| *Interest-bearing - fixed rate* | | | | | | |
| Bank loans | 9.94 | 507 | 507 | 1,090 | - | 2,104 |
| Other loans | 12.00 | 68 | 604 | - | - | 672 |
| Lease liability | 9.00 | 67 | 63 | - | - | 130 |
| Total non-derivatives | | 2,043 | 1,174 | 1,090 | - | 4,307 |

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

***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. The difference between the fair value of non-current borrowings at fixed rates and their carrying values are not material.

**Note 26. 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 (appointed on 22 November 2011) | Executive Director and Managing Director (from 26 March 2012) |
| Dr Gregory James Roger (resigned on 26 March 2012) | Former Executive Director and Former Chief Executive Officer |

*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 Financial Officer and Acting Chief Executive Officer |
| Jari Hyvarinen | Chief Operating Officer |

**Note 26. 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 2012 $ | Consolidated 2011 $ |
|---|---|---|
| Short-term employee benefits | 679,565 | 695,317 |
| Post-employment benefits | 48,640 | 49,997 |
| Long-term benefits | 59,580 | 10,319 |
| Share-based payments | - | 7,200 |
| | 787,785 | 762,833 |

*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:

| 2012 | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| Peter Kazacos | 715,810 | - | - | - | 715,810 |
| John O'Meara | 300,000 | - | - | - | 300,000 |
| Peter Welsh * | - | - | 7,133,132 | - | 7,133,132 |
| Dr Gregory James Roger ** | 7,554,690 | - | - | (7,554,690) | - |
| Richard Ulrick | 197,453 | - | - | - | 197,453 |
| Tom Milicevic | 68,001 | - | 3,334 | - | 71,335 |
| Jari Hyvarinen | 8,668 | - | - | - | 8,668 |
| | 8,844,622 | - | 7,136,466 | (7,554,690) | 8,426,398 |

* 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.

| 2011 | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| Peter Kazacos | 715,810 | - | - | - | 715,810 |
| John O'Meara | 300,000 | - | - | - | 300,000 |
| Dr Gregory James Roger | 7,554,690 | - | - | - | 7,554,690 |
| Walter Kmet * | 98,278 | - | - | (98,278) | - |
| Richard Ulrick | 177,453 | - | 20,000 | - | 197,453 |
| Tom Milicevic | 66,335 | - | 1,666 | - | 68,001 |
| Jari Hyvarinen | 8,668 | - | - | - | 8,668 |
| | 8,921,234 | - | 21,666 | (98,278) | 8,844,622 |

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

## Note 26. 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:

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

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

| **2011** | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| Peter Kazacos | 106,000 | - | - | - | 106,000 |
| Dr Gregory James Roger | 254,000 | - | - | - | 254,000 |
| Walter Kmet * | 100,000 | - | - | (100,000) | - |
| Tom Milicevic | 200,000 | - | - | - | 200,000 |
| Jari Hyvarinen | 99,000 | - | - | (99,000) | - |
| | 759,000 | - | - | (199,000) | 560,000 |

* 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 30.

## Note 27. Remuneration of auditors

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

| | **Consolidated** | |
|---|---|---|
| | **2012** | **2011** |
| | **$** | **$** |
| *Audit services - PricewaterhouseCoopers* | | |
| Audit or review of the financial statements | 120,000 | 122,650 |
| *Other services - PricewaterhouseCoopers* | | |
| Tax compliance services | 21,500 | 20,680 |
| Tax consulting and advice | 90,000 | - |
| | 111,500 | 20,680 |
| | 231,500 | 143,330 |

## Note 28. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2012 and 30 June 2011.

The consolidated entity has performance guarantee totalling $185,422 at 30 June 2012 (2011: $185,422) in relation to rental commitments.

## Note 29. Commitments

| | Consolidated | |
|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 |
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 493 | 722 |
| One to five years | - | 496 |
| | 493 | 1,218 |
| *Lease commitments - finance* | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 606 | 574 |
| One to five years | 1,328 | 1,660 |
| Total commitment | 1,934 | 2,234 |
| Less: Future finance charges | (301) | (362) |
| Net commitment recognised as liabilities | 1,633 | 1,872 |
| Representing: | | |
| Lease liability - current (note 17) | 503 | 463 |
| Lease liability - non-current (note 19) | 1,130 | 1,409 |
| | 1,633 | 1,872 |

The future minimum non-cancellable sub-lease operating lease payments expected to be received by the consolidated entity is $13,500 (2011: $129,000).

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 $128,000 (2011: $161,000) under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

## Note 30. Related party transactions

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

*Subsidiaries*
Interests in subsidiaries are set out in note 32.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the directors' report.

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

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| | **$** | **$** |
| Payment for goods and services: | | |
| Fee for maintenance and support services from Anittel Group Limited (shareholder and director related entity of Peter Kazacos) | 64,960 | 70,893 |
| Payment for strategic review to an entity related to Michael Spooner.(director who resigned 15 February 2011) | - | 175,000 |
| Fees paid to Law Corporation (director related entity of Peter Kazacos) | 9,500 | 6,845 |
| | | |
| Payment for other expenses: | | |
| Interest paid to parties related to Tom Milicevic | 75,925 | 5,622 |

*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 | |
|---|---|---|
| | **2012** | **2011** |
| | **$** | **$** |
| Current borrowings: | | |
| Loan with parties related to Tom Milicevic | 200,000 | - |
| | | |
| Non-current borrowings: | | |
| Loan with parties related to Tom Milicevic | 570,020 | 570,020 |

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

## Note 31. Parent entity information

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

*Statement of comprehensive income*

| | Parent | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Loss after income tax | (1,033) | (2,409) |
| Total comprehensive income | (1,033) | (2,409) |

*Statement of financial position*

| | Parent | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Total current assets | 8,016 | 4,740 |
| Total assets | 11,622 | 9,378 |
| Total current liabilities | 5,531 | 1,952 |
| Total liabilities | 7,570 | 4,256 |
| Equity | | |
| Issued capital | 8,818 | 8,855 |
| Share-based payments reserve | 521 | 521 |
| Accumulated losses | (5,287) | (4,254) |
| Total equity | 4,052 | 5,122 |

*Contingent liabilities*
The parent entity had no contingent liabilities at 30 June 2012 and 30 June 2011.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for the purchase of property, plant and equipment at 30 June 2012 and 30 June 2011.

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

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

## Note 32. 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 2012 % | Equity holding 2011 % |
|---|---|---|---|
| ASDM Holdings Pty Limited | Australia | 100.00 | 100.00 |
| Advanced Surgical Design & Manufacture (UK) Limited | United Kingdom | 100.00 | 100.00 |

## Note 33. Events after the reporting period

No matter or circumstance has arisen since 30 June 2012 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 34. Reconciliation of loss after income tax to net cash from/(used in) operating activities

| | Consolidated 2012 $'000 | Consolidated 2011 $'000 |
|---|---|---|
| Loss after income tax (expense)/benefit for the year | (173) | (3,265) |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 941 | 1,035 |
| Impairment of intangibles | - | 585 |
| Share-based payments | - | 7 |
| Foreign exchange differences | (2) | 80 |
| | | |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | (670) | 54 |
| Increase in inventories | (2,729) | (34) |
| Increase in income tax refund due | (605) | - |
| Decrease in deferred tax assets | 425 | 276 |
| Increase in prepayments | (40) | (123) |
| Increase in trade and other payables | 3,317 | 177 |
| Increase/(decrease) in other provisions | (40) | 64 |
| | | |
| Net cash from/(used in) operating activities | 424 | (1,144) |

## Note 35. Earnings per share

| | Consolidated | |
|---|---|---|
| | **2012** | **2011** |
| | **$'000** | **$'000** |
| Loss after income tax attributable to the owners of Advanced Surgical Design & Manufacture Limited | (173) | (3,265) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 35,298,996 | 35,298,996 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 35,298,996 | 35,298,996 |
| | **Cents** | **Cents** |
| Basic earnings per share | (0.49) | (9.25) |
| Diluted earnings per share | (0.49) | (9.25) |

Options granted to employees under the Employee Option Plan for year ended 30 June 2012 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 36. Share-based payments

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

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

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:

**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 |
| | | | 680,000 | - | - | (266,000) | 414,000 |

## Note 36. Share-based payments (continued)

**2011**

| 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 |
| 30/11/07 | 30/06/11 | $0.60 | 636,000 | - | - | (636,000) | - |
| 26/03/10 | 30/06/13 | $0.60 | 28,000 | - | - | (8,000) | 20,000 |
| | | | 1,324,000 | - | - | (644,000) | 680,000 |

* At the reporting date 406,000 (2011: 660,000) options were fully vested.

The weighted average remaining contractual life of share options outstanding at the end of the period was [1.57] years (2011: 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 2012 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) of the Corporations Act 2001.

On behalf of the directors

Peter Kazacos
Director

28 September 2012
Sydney

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

## *Report on the financial report*

We have audited the accompanying financial report of Advanced Surgical Design and Manufacture Limited (the company), which comprises the statement of financial position as at 30 June 2012, the statement of 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 and Manufacture Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001* other than as set out in the Auditor's Independence Declaration dated 28 September 2012.

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*Auditor's opinion*

In our opinion:

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

(i) giving a true and fair view of consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

## *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the company incurred a net loss for the year ended 30 June 2012 and, as of that date, the company's current liabilities included a payable of $2,510,000 which is presently due. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

## *Report on the Remuneration Report*

We have audited the remuneration report included in pages 6 to 13 of the directors' report for the year ended 30 June 2012. 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 and Manufacture Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

James McElvogue
Partner

Sydney
28 September 2012

**Advanced Surgical Design & Manufacture Limited**
**Shareholder information**
**30 June 2012**

The shareholder information set out below was applicable as at 17 September 2012.

**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 | 13 |
| 1,001 to 5,000 | 155 |
| 5,001 to 10,000 | 98 |
| 10,001 to 100,000 | 99 |
| 100,001 and over | 29 |
| | 394 |
| Holding less than a marketable parcel | 141 |

**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 |
| Cryptych Pty Ltd | 7,067,856 | 20.02 |
| Marie Caroll & Dawson Caroll | 5,636,285 | 15.97 |
| Peter Welsh | 4,473,685 | 12.67 |
| Welsh Superannuation Pty Limited | 2,600,000 | 7.37 |
| Mergin Investments Pty Ltd <M & V Cross Super Fund> | 2,332,857 | 6.61 |
| Thomas James Carroll | 1,000,000 | 2.83 |
| Kenneth Campbell | 1,000,000 | 2.83 |
| Misty Hills Nominees Pty Ltd | 892,857 | 2.53 |
| Cassidy Investments Pty Limited <Michael O'Sullivan Super Fund A/C> | 572,140 | 1.62 |
| Destin Pty Limited | 572,000 | 1.62 |
| Nicole Faith Roger | 403,334 | 1.14 |
| Cryptych Pty Ltd<Cryptych Super Fund> | 355,000 | 1.01 |
| GEGM Investments Pty Ltd | 353,000 | 1.00 |
| Mr John Catherwood Young & Mrs Corinne Girard Young <Cartesia Super Fund A/C> | 318,713 | 0.90 |
| Simon Roberts | 309,358 | 0.88 |
| Leslie Harry Cross | 300,000 | 0.85 |
| John O'Meara & Margaret O'Meara | 300,000 | 0.85 |
| Waugoola Pty Ltd <Wood Super Fund> | 286,000 | 0.81 |
| Desmond J Bokor Pty Limited | 286,000 | 0.81 |
| Oakwork Pty Limited | 239,470 | 0.68 |
| | 29,298,555 | 83.00 |

**Advanced Surgical Design & Manufacture Limited**
**Shareholder information**
**30 June 2012**

*Unquoted equity securities*

| | Number on issue | Number of holders |
|---|---|---|
| Options issued under the Company's Employee Share Option Plan, exercisable at 60 cents and expiring 30 June 2013 | 8,000 | 4 |
| 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 |
| Options issued to Peter Kazacos, exercisable at 50 cents expiring 5 December 2012 | 106,000 | 1 |
| Options issued to Walter Kmet, exercisable at 50 cents expiring 5 December 2012 | 100,000 | 1 |

### Substantial holders
Substantial holders in the company are set out below:

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| Cryptych Pty Ltd and Gregory James Roger | 7,946,190 | 22.51 |
| Peter Welsh and Welsh Superannuation Pty Limited | 7,073,285 | 20.04 |
| Marie Caroll & Dawson Caroll | 5,636,285 | 15.97 |
| Mergin Investments Pty Ltd | 2,332,857 | 6.61 |

### 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.