

**ADVANCED SURGICAL DESIGN &
MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN &
MANUFACTURE PTY LTD)
ABN 71 066 281 132**

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2005**

For personal use only

**ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132**

DIRECTORS' REPORT

Your directors present their report on the Company for the year ended 30 June 2005.

Directors

The name of the directors in office at any time during or since the end of the year and their special responsibilities are:

Directors	Appointment Date	Special Responsibilities
Peter Kazacos	9 May 2006	Non-Executive Chairman
Gregory James Roger	1 September 1994	Managing Director and Company Secretary
Peter Welsh	21 August 2003	Non-Executive Director
Peter Housden	9 May 2006	Non-Executive Director

Information on Directors

Peter Kazacos (appointed on 9 May 2006)

Peter has over 28 years' experience in the IT industry. He founded Kaz Group Ltd in 1988 and was responsible for guiding Kaz from a small IT services company in NSW, through its listing on the ASX in 2000, to over 4000 employees today as a fully owned subsidiary of Telstra. Mr Kazacos is also chairman for the Australian Information Industry Association (AIIA) and is a former member of the advisory board for BMC Software Inc.

Mr. Kazacos was the recipient of the inaugural Australian Entrepreneur of the Year 2001 award in the Technology, Communications, E-Commerce and Biotechnology category. He was also inducted into the Hall of Fame for the 3rd Annual IT&T Awards in October 2004. Peter holds a Bachelor of Electrical Engineering and a Bachelor of Science (Applied Mathematics and Computer Science) from the University of New South Wales.

Gregory James Roger MB BS (Syd) M Eng (Res) (Syd)

(appointed on 1 September 1994)

Greg holds a Bachelor of Medicine and a Masters of Engineering Research from the University of Sydney. Greg commenced practising medicine in 1984, and has extensive experience in accident and emergency medicine and orthopaedics, including a period of service as the Medical Director of the Surf Lifesaving Association Rescue Helicopter Service. Greg's cross-disciplinary background in medicine and engineering has placed him in a unique position to understand the application of engineered devices and principles to medical applications. He founded ASDM in 1994, and has guided its research, marketing and manufacturing activity since then.

In addition to his business interests, Greg maintains active academic and teaching involvement in the field. He served 6 years as the Research Director of the Australian Institute of Musculo-skeletal Research, and currently sits on its Board. In addition, he has served with a number of prominent government and regulatory bodies including 5 years as chair of the Technology Industries Exporters Group, and currently as a member of the Medical Device Evaluation Committee of the TGA.

For personal use only

DIRECTORS' REPORT

Since 2003, Greg has taught Orthopaedics in Engineering part time at the Faculty of Engineering at Sydney University and he continues there as an Adjunct Associate Professor. Greg has been the applicant for 6 Australian and International Patents. He maintains an active involvement in orthopaedic medicine and has 30 conference papers and 8 published academic papers to his credit.

Peter Welsh (appointed on 21 August 2003)

Peter has over 30 years' experience in the field of orthopaedic supplies, sale and marketing. His training in medical services began when he first enlisted in the Navy. In his civilian life, he performed a number of sales and marketing roles in medical products and devices companies and for some years managed manufacturing business in the field. For 16 years he was the NSW distributor for Smith and Nephew until he sold the business back to S&N in 1999. In 1999 he purchased an initial investment in ASDM and in 2003 joined the board of directors.

Peter Housden (appointed on 9 May 2006)

Peter has 34 years' experience in corporate life, including 14 as Director or Company Secretary on listed company Boards. He has extensive experience in most areas of business including operations, people, risk management, business development, finance and strategy. Currently Peter is Interim CFO for Pacific National Pty Ltd, a Director of DataDot Technology Ltd and Chairman of Speedfins Pty Ltd. Previous roles held by Peter include CFO and Company Secretary for MIA Group Limited, Acting Chairman and Chair of Audit Committee for Kaz Group Ltd, Executive Director for RGC Limited, Executive Director and CFO for Australian Chemical Holdings Ltd, Group Controller for Metal Manufacturers Ltd as well as senior management positions with Esso Australia Ltd and BHP Ltd. Peter holds a Bachelor of Commerce (Hons) from the University of Newcastle and is a Fellow of the Australian Society of Certified Practising Accountants, a senior member of the Finance and Treasury Association and Fellow of the Australian Institute of Company Directors.

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Gregory James Roger

Meetings of Directors

During the financial year ended 30 June 2005, no meetings of Directors were held.

Principal Activities

The principal activity of the Company during the year was the design and manufacture of Surgical Implants.

No significant change in the nature of these activities occurred during the year.

Operating Result

The net profit after tax of the Company for the year amounted to \$315,761 (2004: \$28,822 loss).

DIRECTORS' REPORT

Dividends Paid or Recommended

No dividends were paid or declared since the start of the year and no recommendation is made as to dividends.

Review of Operations

A review of the operations of the Company during the financial year and the results of these operations found that changes in market demand for ASDM's products have seen an increase in sales revenue when compared to the previous financial year. This increase in sales revenue was related to a number of new users of the Active Knee as well as the launch of the Active Unicompartmental Prosthesis. This success is expected to be an ongoing situation.

Significant Changes in State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the year.

After Balance Date Events

Except for the following, no other matters or circumstances have arisen since the end of the year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent years.

- a. Subsequent to year end, the Company has converted itself from a proprietary company to a public company pursuant to a Board Resolution on 9 May 2006.
- b. Agreement cancelling the distribution agreement with Active Orthopaedics Pty Limited and the acquisition of remaining stock for a value of \$1.0m.
- c. Agreement cancelling the agency agreement with Flexitron Pty Limited and acquisition of the business for consideration equivalent to the net assets of the Flexitron at 30 June 2006, being approximately \$80,000.
- d. The Company is currently in the process of completing an initial public offering of 20,000,000 ordinary \$0.50 shares to raise \$10,000,000 to assist in funding of the above.

Future Developments

Other than as outlined above, no other likely developments in the operation of the Company are expected to affect the results of the Company in financial years subsequent to the year ended 30 June 2005.

Options

No options to shares in the Company have been granted during the year and there were no options outstanding at the end of the year.

For personal use only

DIRECTORS' REPORT

Indemnification of Officers or Auditors

The Company has not, during or since the year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to such proceedings during the year.

Auditors' Independence Declaration

A copy of the Auditors' Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 5.

Signed in accordance with a resolution of the Board of Directors.



Director

Dated this 3rd day of July 2006

For personal use only

PARTNERS:

Andrew Blackwell CA
Stephen Humphrys FCA
Garry Leyshon FCA
Joe Shannon CA
Robert Southwell CA
Spiro Tzannes FCA
Charlie Viola (Affiliate ICAA)
Bob Webster FCA
Scott Whiddett CA

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

CONSULTANTS:

Pat Bugden FCA
Anja Dorrell CA

Auditors' Independence Declaration

As lead auditor for the review of Advanced Surgical Design & Manufacture Limited (formerly Australian Surgical Design & Manufacture Pty Ltd) for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

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

S.M. WHIDDETT
Partner

Dated in Sydney this 3rd day of July 2006

For personal use only

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
Sales revenue	2	4,466,635	5,857,265
Cost of sales		<u>(2,736,104)</u>	<u>(3,455,166)</u>
Gross Profit		<u>1,730,531</u>	<u>2,402,099</u>
Other revenue from ordinary activities	2	1,094,288	423,406
Employee benefits		(1,157,949)	(1,256,446)
Administration expenses		(406,481)	(425,255)
Borrowing costs		(291,215)	(265,112)
Occupancy expenses		(190,999)	(164,745)
Professional fees		(134,948)	(272,204)
Research and development expenses		(105,711)	(10,048)
Marketing expenses		(76,707)	(100,081)
Doubtful debts expense		-	(279,618)
Other expenses from ordinary activities		<u>(51,722)</u>	<u>(141,966)</u>
Profit/(loss) from ordinary activities before income tax expense	3	409,087	(89,970)
Income tax (expense)/benefit relating to ordinary activities	4	<u>(93,326)</u>	<u>61,148</u>
Net profit/(loss) from ordinary activities after income tax expense attributable to members of the Company		<u>315,761</u>	<u>(28,822)</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>315,761</u>	<u>(28,822)</u>

The accompanying notes form part of these financial statements.

For personal use only

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	2005 \$	2004 \$
CURRENT ASSETS			
Cash assets	8	450	2,225
Receivables	9	762,172	903,074
Inventories	10	2,555,434	2,531,187
Other	11	<u>124,754</u>	<u>112,358</u>
TOTAL CURRENT ASSETS		<u>3,442,810</u>	<u>3,548,844</u>
NON-CURRENT ASSETS			
Plant and equipment	12	4,301,335	4,833,602
Deferred tax assets	13	81,762	85,843
Intangible assets	14	34,465	39,751
Other	11	<u>88,455</u>	<u>106,748</u>
TOTAL NON-CURRENT ASSETS		<u>4,506,017</u>	<u>5,065,944</u>
TOTAL ASSETS		<u>7,948,827</u>	<u>8,614,788</u>
CURRENT LIABILITIES			
Payables	15	520,218	1,116,120
Interest bearing liabilities	16	1,239,655	1,093,709
Tax liabilities	17	16,447	5,838
Provisions	18	159,285	154,841
Other	19	<u>75,626</u>	<u>307,776</u>
TOTAL CURRENT LIABILITIES		<u>2,011,231</u>	<u>2,678,284</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	16	2,003,603	2,357,674
Provisions	18	62,718	52,689
Other	19	<u>1,508,959</u>	<u>1,479,586</u>
TOTAL NON-CURRENT LIABILITIES		<u>3,575,280</u>	<u>3,889,949</u>
TOTAL LIABILITIES		<u>5,586,511</u>	<u>6,568,233</u>
NET ASSETS		<u>2,362,316</u>	<u>2,046,555</u>
EQUITY			
Contributed equity	20	1,750,018	1,750,018
Retained profits	21	<u>612,298</u>	<u>296,537</u>
TOTAL EQUITY		<u>2,362,316</u>	<u>2,046,555</u>

The accompanying notes form part of these financial statements.

For personal use only

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		6,254,611	7,421,201
Payments to suppliers and employees		(5,500,904)	(7,417,625)
Borrowing costs paid		(291,215)	(265,112)
Interest received		3,006	2,509
Income tax refund		1,196	-
Income tax paid		(79,832)	(151,246)
Net cash provided by/(used in) operating activities	25(b)	<u>386,862</u>	<u>(410,273)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(40,466)	(560,223)
Purchase of intangible assets		(1,530)	(33,671)
Net cash used in investing activities		<u>(41,996)</u>	<u>(593,894)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds/(repayment) of bank loan		500,000	(500,000)
Proceeds from related party loans		475,000	745,000
Repayment of related party loans		(290,000)	(200,000)
Proceeds from finance leases		-	36,494
Repayment of finance leases		(670,771)	(307,440)
Proceeds from issue of shares		-	750,012
Net cash provided by financing activities		<u>14,229</u>	<u>524,066</u>
Net increase/(decrease) in cash held		359,095	(480,101)
Cash at beginning of year		<u>(490,482)</u>	<u>(10,381)</u>
Cash at end of year	25(a)	<u><u>(131,387)</u></u>	<u><u>(490,482)</u></u>

The accompanying notes form part of these financial statements.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 1: Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Company Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report is for the entity, Advanced Surgical Design & Manufacture Limited (formerly Australian Surgical Design & Manufacture Pty Ltd) as an individual entity. Advanced Surgical Design & Manufacture Limited is a public company limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

(b) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity.

(c) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 1: Statement of Significant Accounting Policies (Continued)

(c) Plant and Equipment (Continued)

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets is depreciated over their useful lives to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation method and rates used for each class of depreciable asset are:

<u>Class of Fixed Asset</u>	<u>Depreciation Method</u>	<u>Depreciation Rate</u>
Manufacturing plant and equipment	Diminishing balance	5% - 60%
Office furniture and equipment	Diminishing balance	4% - 20%
Leasehold improvements	Straight-line	10% - 40%
Leased plant and equipment	Diminishing balance	40%

(d) Receivables

Trade receivables are generally settled within 60 days and are carried at amounts due. Collectibility of trade receivables are reviewed on an ongoing basis. A provision is raised for any doubtful debt based on a review of all outstanding amounts at balance sheet date. Bad debts are written off in the period in which they are identified.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the Company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

(f) Intangible Assets

Brand name, logo and website costs are valued in the accounts at the cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

(g) Foreign Currency Transactions and Balances

Foreign currency transactions during the period are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted to the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

(h) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 1: Statement of Significant Accounting Policies (Continued)

(h) Employee Benefits (Continued)

Contributions are made by the Company to an employee superannuation fund and are charged as expenses when incurred.

(i) Cash

For the purposes of Statement of Cash Flows, cash includes cash on hand and in at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months, net of bank overdrafts.

(j) Trade and Other Creditors

Trade and other creditors represent liabilities for goods or services provided to the Company prior to the end of financial year which remain unpaid. These amounts are unsecured and are usually paid within 60 days after recognition.

(k) Borrowings

Borrowings are recorded at their principal amounts and interest is accrued and recorded as part of other creditors over the period it becomes due.

Borrowing costs are recognised as expense in the period in which they are incurred. Borrowing costs include interest on bank overdrafts and loans, hire purchase liabilities and on related party loans.

(l) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Grant income is recognised in accordance with the conditions of the grant.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(m) Research and Development

Costs incurred on research and development are charged as expenses in the period in which they are incurred.

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(o) Comparative Figures

When required by the Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(p) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The Directors of the Company are preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for financial reporting periods commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Company's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 1: Statement of Significant Accounting Policies (Continued)

(p) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

The Directors are of the opinion that there are no material differences in the Company's accounting policies on conversion to AIFRS.

	2005 \$	2004 \$
NOTE 2: REVENUE		
Operating activities	<u>4,466,635</u>	<u>5,857,265</u>
Sale of goods		
Non-operating activities	780,000	-
Management fee	222,888	-
Sub-rental income	45,886	154,226
Foreign exchange gains	29,415	4,666
Grant income	3,006	2,509
Interest received	13,093	262,005
Other income	<u>1,094,288</u>	<u>423,406</u>
	<u>5,560,923</u>	<u>6,280,671</u>
(a) Interest from:	<u>3,006</u>	<u>2,509</u>
- Other persons		

NOTE 3: PROFIT/(LOSS) FROM ORDINARY ACTIVITIES

Profit/(loss) from ordinary activities before income tax benefits/(expense) has been determined after the following expenses:

Cost of sales	2,736,104	3,455,166
Rental expense	609,873	361,292
Depreciation and amortisation	579,549	577,965
Borrowing costs	291,215	265,112
Bad and doubtful debts	<u>-</u>	<u>279,618</u>

NOTE 4: INCOME TAX EXPENSE/(BENEFIT)

The prima facie tax payable/(refundable) on profit from ordinary activities is reconciled to the income tax expense/(benefit) as follows:

The prima facie tax payable/(refundable) on profit/(loss) from ordinary activities before income tax at 30% (2004: 30%)	122,726	(26,991)
Add tax effect of:		
- non-deductible depreciation and amortisation	99,651	122,916
- other non-deductible expenses	96,730	206,123
Less tax effect of:		
- deductible depreciation and amortisation	(111,287)	(128,116)
- other deductible expenses	<u>(114,494)</u>	<u>(235,080)</u>
Income Tax Expense/(Benefit)	<u>93,326</u>	<u>(61,148)</u>

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2005

	2005 \$	2004 \$
NOTE 5: DIVIDENDS PAID OR PROPOSED		
No dividend has been paid during the year and no dividends have been proposed since year end.		
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivable, franking debits arising from payment of proposed dividends and credits that may be prevented from distribution in subsequent financial year.		
	<u>292,308</u>	<u>212,476</u>
NOTE 6: REMUNERATION AND RETIREMENT BENEFITS		
(a) Remuneration of Directors		
Remuneration received or receivable by all Directors of the Company:		
- from the Company in connection with the management of the Company	<u>162,907</u>	<u>162,630</u>
Number of Directors whose income from the Company was within the following bands:		
	No.	No.
\$0 - \$19,999	1	1
\$160,000 - \$179,999	<u>1</u>	<u>1</u>
The names of Directors who have held office during the financial year:		
Gregory James Roger		
Peter Welsh		
	\$	\$
(b) Retirement Benefits		
Amounts paid to a superannuation plan for the provision of retirement benefits by:		
- the Company for Directors of the Company	<u>14,953</u>	<u>14,510</u>
NOTE 7: AUDITORS' REMUNERATION		
Remuneration of the auditor of the Company for:		
- auditing or reviewing the financial report	-	-
- other services	-	-
- other services provided by related practice of auditor	<u>-</u>	<u>-</u>
No auditors' remuneration is paid or accrued during the financial year because the Company is a non-reporting entity as defined under the Corporations Act 2001, and as such no audit was required.		
NOTE 8: CASH ASSETS		
Cash on hand	450	450
Cash at bank	<u>-</u>	<u>1,775</u>
	<u>450</u>	<u>2,225</u>

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
NOTE 9: RECEIVABLES			
CURRENT		762,172	934,862
Trade debtors		-	(31,788)
Less provision for doubtful debts		<u>762,172</u>	<u>903,074</u>
NOTE 10: INVENTORIES			
At cost:		357,401	490,188
Raw materials		1,118,000	1,179,410
Finished goods		960,350	700,380
Work in progress		97,479	133,009
Packaging materials		22,204	28,200
Stock on consignment		<u>2,555,434</u>	<u>2,531,187</u>
NOTE 11: OTHER ASSETS			
CURRENT		90,000	90,000
Short-term bank deposit		34,754	22,358
Prepayments		<u>124,754</u>	<u>112,358</u>
NON-CURRENT		88,455	106,748
Deposits paid	11(a)	<u>88,455</u>	<u>106,748</u>
(a)	Represent deposits paid in relation to the leased premises.		
NOTE 12: PLANT AND EQUIPMENT			
Manufacturing plant and equipment - at cost		6,349,093	6,334,406
Less accumulated depreciation		(2,438,600)	(1,961,252)
		<u>3,910,493</u>	<u>4,373,154</u>
Office furniture and equipment - at cost		469,646	460,819
Less accumulated depreciation		(311,755)	(247,081)
		<u>157,891</u>	<u>213,738</u>
Leasehold improvements - at cost		217,136	200,184
Less accumulated depreciation		(15,764)	(7,869)
		<u>201,372</u>	<u>192,315</u>
Leased plant and equipment - at cost		90,447	90,447
Less accumulated depreciation		(58,868)	(36,052)
		<u>31,579</u>	<u>54,395</u>
Total Plant and Equipment		<u><u>4,301,335</u></u>	<u><u>4,833,602</u></u>

For personal use only

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 12: PLANT AND EQUIPMENT (Continued)

(a) Movements in Carrying Amounts:

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Manufacturing Plant and Equipment \$	Office Furniture & Equipment \$	Leasehold Improvements \$	Leased Plant and Equipment \$	Total \$
Balance at beginning of the financial year	4,373,154	213,738	192,315	54,395	4,833,602
Additions	14,687	8,827	16,952	-	40,466
Depreciation expense	(477,348)	(64,674)	(7,895)	(22,816)	(572,733)
Carrying amount at the end of the financial year	<u>3,910,493</u>	<u>157,891</u>	<u>201,372</u>	<u>31,579</u>	<u>4,301,335</u>

NOTE 13: DEFERRED TAX ASSETS

	2005 \$	2004 \$
Future income tax benefit	<u>81,762</u>	<u>85,843</u>

NOTE 14: INTANGIBLE ASSETS

	2005 \$	2004 \$
Brand name and logo - at cost	16,206	16,206
Less accumulated amortisation	<u>(1,911)</u>	<u>(885)</u>
	14,295	15,321
Website - at cost	30,066	28,536
Less accumulated amortisation	<u>(9,896)</u>	<u>(4,106)</u>
	20,170	24,430
Total Intangible Assets	<u>34,465</u>	<u>39,751</u>

NOTE 15: PAYABLES

	2005 \$	2004 \$
CURRENT		
Trade creditors	287,046	851,671
Sundry creditors	<u>233,172</u>	<u>264,449</u>
	<u>520,218</u>	<u>1,116,120</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
NOTE 16: INTEREST BEARING LIABILITIES			
CURRENT			
Bank overdraft secured	16(a)	131,837	492,707
Bank loan secured	16(a)	500,000	-
Hire purchase liabilities		607,818	601,002
		<u>1,239,655</u>	<u>1,093,709</u>
NON-CURRENT			
Hire purchase liabilities		1,703,603	2,357,674
Amount payable to shareholders	16(b)	300,000	-
		<u>2,003,603</u>	<u>2,357,674</u>
(a) The bank loan and bank overdraft are guaranteed up to \$840,000 (2004: \$840,000) by Greg Roger, a Director, supported by a second registered mortgage over his residential property not exceeding \$180,000.			
(b) Amount payable to shareholders is unsecured with an interest rate of 8.4% per annum.			
NOTE 17: TAX LIABILITIES			
CURRENT			
Income tax		<u>16,447</u>	<u>5,838</u>
NOTE 18: PROVISIONS			
CURRENT			
Provision for holiday pay		<u>159,285</u>	<u>154,841</u>
NON-CURRENT			
Provision for long service leave		<u>62,718</u>	<u>52,689</u>
Number of employees at year end		<u>No. 36</u>	<u>No. 27</u>
NOTE 19: OTHER LIABILITIES			
CURRENT			
Deferred lease incentives		64,261	64,261
Lease liabilities		11,365	23,515
Amount payable to director-related entities	19(a)	-	220,000
		<u>75,626</u>	<u>307,776</u>
NON-CURRENT			
Amount payable to directors and director-related entities	19(a)	1,377,060	1,272,060
Deferred lease incentives		107,101	171,362
Lease liabilities		24,798	36,164
		<u>1,508,959</u>	<u>1,479,586</u>

(a) Amount payable to directors and director-related entities are unsecured and non-interest bearing.

For personal use only

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 \$	2004 \$
NOTE 20: CONTRIBUTED EQUITY		
500,020 (2004: 500,020) fully paid ordinary shares	<u>1,750,018</u>	<u>1,750,018</u>
<p>Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.</p> <p>At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.</p>		
NOTE 21: RETAINED PROFITS		
Balance at the beginning of the financial year	296,537	325,359
Net profit/(loss) attributable to the members of the Company	<u>315,761</u>	<u>(28,822)</u>
Balance at the end of the financial year	<u>612,298</u>	<u>296,537</u>
NOTE 22: CAPITAL AND LEASING COMMITMENTS		
(a) Finance Lease Commitments		
Payable - minimum lease payments	892,144	935,633
- not later than 12 months	<u>1,767,406</u>	<u>2,573,114</u>
- between 12 months and five years		
Minimum lease payments	2,659,550	3,508,747
Less future finance charges	<u>(337,721)</u>	<u>(540,066)</u>
	<u>2,321,829</u>	<u>2,968,681</u>
<p>Finance leases on manufacturing plant and equipment have terms of one to five years and are paid on a monthly basis. Significant leases were guaranteed by the Directors or a Director-related entity.</p>		
(b) Operating Lease Commitments		
Payable - minimum lease payments	623,217	609,873
- not later than 12 months	<u>1,135,377</u>	<u>1,758,594</u>
- between 12 months and five years		
	<u>1,758,594</u>	<u>2,368,467</u>
<p>The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by the greater of CPI or 4% per annum. An option exists to renew the lease at the end of five years. The lease allows for subletting of all lease areas.</p>		

NOTE 23: CONTINGENT LIABILITIES

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

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2005

NOTE 24: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Directors

The names of Directors of the Company who have held office for the period from 1 July 2004 to 30 June 2005 are:

Gregory James Roger
 Peter Welsh

(b) Director's and Director-related Entities' Holding of Ordinary Shares on Issue

The direct, indirect and beneficial holdings of directors and their director-related entities in the shares of the Company as at 30 June 2005 was 350,014 shares (2004: 350,014 shares).

(c) Director and Director-related Entities' Transaction with the Company

Loan from Directors and Director-Related Entities

The Director and a director-related entity provided unsecured and non-interest bearing loans to the Company as follows:

	2005	2004
	\$	\$
Peter and Jill Welsh	650,000	525,000
Gregory James Roger	419,313	439,313
Cryptych Pty Limited	307,747	307,747
Flexitron Pty Ltd	-	220,000
	1,377,060	1,492,060

Management Fees and Rent Revenue

During the period, the Company has received revenues from Flexitron Pty Ltd, a director-related entity, for the following:

Management services	780,000	-
Provision of office facilities	180,000	-
	960,000	-

(d) Shareholder Transactions with the Company

An unsecured loan with an interest rate of 8.4% per annum was provided by Marie and Dawson Carroll, shareholders

	300,000	-
--	---------	---

NOTE 25: CASH FLOW INFORMATION

(a) Reconciliation of Cash

Cash at the end of financial year as shown in the Statement of Cash Flows is reconciled to related items in the Statement of Financial Position as follows:

Cash on hand	450	450
Cash at bank	-	1,775
Bank overdraft - secured	(131,837)	(492,707)
	(131,387)	(490,482)

For personal use only

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 \$	2004 \$
NOTE 25: CASH FLOW INFORMATION (Continued)		
(b) Reconciliation of Cash Flow from Operations with Profit/(Loss) from Ordinary Activities after Income Tax:		
Profit/(loss) from ordinary activities after income tax	315,761	(28,822)
Non-cash flows in profit/(loss) from ordinary activities:		
Depreciation and amortisation	579,549	577,965
Decrease in deferred lease incentives	(64,261)	(64,261)
Provision for doubtful debts	-	279,618
Changes in assets and liabilities:		
Decrease in receivables	140,902	235,605
Increase in inventories	(24,247)	(1,092,028)
Decrease/(increase) in other assets	5,897	(95,041)
Decrease in deferred tax assets	4,081	2,170
Decrease in payables	(595,902)	(46,658)
Increase/(decrease) in income tax payable	10,609	(214,564)
Increase in provisions	14,473	35,743
Net cash flows provided by/(used in) operating activities	<u>386,862</u>	<u>(410,273)</u>

(c) Non-cash Financing and Investing Activities

During the previous financial year 30 June 2004, the Company acquired plant and equipment with an aggregate fair value of \$1,279,331 (none in 2005) by means of hire purchase agreements. These acquisitions are not reflected in the Statement of Cash

(d) Credit Stand by Arrangement and Loan Facilities

The Company has a bank overdraft and loan facility amounting to \$750,000 (2004: \$750,000). This may be terminated at any time at the option of the bank. At 30 June 2005, \$631,837 of this facility was used (2004: \$492,707). Interest rates are variable.

NOTE 26: SEGMENT REPORTING

The Company operates in one business and geographical segment, being the design and manufacture of surgical implants in Australia.

NOTE 27: EVENTS SUBSEQUENT TO REPORTING DATE

Except for the following, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in future financial years.

- (a) Subsequent to year end, the Company has converted itself from a proprietary company to a public company pursuant to a Board Resolution on 9 May 2006.
- (b) Agreement cancelling the distribution agreement with Active Orthopaedics Pty Limited and the acquisition of remaining stock for a value of \$1.0m.
- (c) Agreement cancelling the agency agreement with Flexitron Pty Limited and acquisition of the business for consideration equivalent to the net assets of the Flexitron at 30 June 2006, being approximately \$80,000.
- (d) The Company is currently in the process of completing an initial public offering of 20,000,000 ordinary \$0.50 shares to raise \$10,000,000 to assist in funding of the above.

For personal use only

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

NOTE 28: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate		Maturity		Non-interest Bearing		Total	
	2005 %	2004 %	2005 \$	2004 \$	Within 1 Year	1 to 5 Years	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
Financial Assets:												
Cash assets	-	1.63	-	1,775	-	-	-	-	450	450	450	2,225
Receivables	-	-	-	-	-	-	-	-	762,172	903,074	762,172	903,074
Short-term bank deposit	5.50	5.50	90,000	-	90,000	-	90,000	-	-	-	90,000	90,000
Total Financial Assets			90,000	1,775	90,000	-	90,000	-	762,622	903,524	852,622	995,299
Financial Liabilities:												
Payables	-	-	-	-	-	-	-	-	520,218	1,116,120	520,218	1,116,120
Bank loan - secured	9.05	-	500,000	-	-	-	-	-	-	-	500,000	-
Bank overdraft - secured	9.25	9.00	131,838	492,707	-	-	-	-	-	-	131,838	492,707
Hire purchase liabilities	8.16	8.29	-	-	607,818	1,703,603	601,002	2,357,674	-	-	2,311,421	2,958,676
Lease liabilities	-	-	-	-	-	-	-	-	36,163	59,679	36,163	59,679
Amount payable to directors, director-related entities and shareholders	8.40	-	-	-	-	300,000	-	-	1,377,060	1,492,060	1,677,060	1,492,060
Total Financial Liabilities			631,838	492,707	607,818	2,003,603	601,002	2,357,674	1,933,441	2,667,859	5,176,700	6,119,242

(b) Credit Risk
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and notes to the financial report.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

(c) Net Fair Values

The net fair values of financial assets and liabilities approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in a standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and in the notes to the financial statements.

NOTE 29: COMPANY DETAILS

The registered office and principal place of business of the Company is:

Advanced Surgical Design & Manufacture Limited
(Formerly Australian Surgical Design & Manufacture Pty Ltd)
Unit 2/12 Frederick Street
St Leonards NSW 2065

The principal activity of the Company is the design and manufacture of surgical implants.

ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
(FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)
ABN 71 066 281 132

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 20 are in accordance with the Corporations Act 2001; including
 - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the Company as represented by the results of their operations and their cash flows, for the financial year ended on that date;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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


.....
Gregory James Roger
Managing Director

Dated this 3rd day of July 2006

PARTNERS:

Andrew Blackwell CA
 Stephen Humphrys FCA
 Garry Leyshon FCA
 Joe Shannon CA
 Robert Southwell CA
 Spiro Tzannes FCA
 Charlie Viola (Affiliate ICAA)
 Bob Webster FCA
 Scott Whiddett CA

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF
 ADVANCED SURGICAL DESIGN & MANUFACTURE LIMITED
 (FORMERLY AUSTRALIAN SURGICAL DESIGN & MANUFACTURE PTY LTD)

CONSULTANTS:

Pat Bugden FCA
 Anja Dorrell CA

Scope

The financial report and directors' responsibility

We have reviewed the financial report of Advanced Surgical Design & Manufacture Limited (formerly Australian Surgical Design & Manufacture Pty Ltd) ("the Company") consisting of the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, accompanying notes to the financial statements, and the Directors' Declaration for the year ended 30 June 2005.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report of the Company in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the shareholders of the Company and in order for the Company to include historical financial information in the prospectus for the issue of shares, and in order for the Company to lodge the prospectus with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of these procedures, which included:

- inquiries of Company personnel, and
- analytical procedures applied to financial data.

When this review report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies with the financial report.

A review is limited primarily to inquiries of Company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

For personal use only

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

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

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Qualification

The financial report for the year ended 30 June 2004 was qualified for inventories. Accordingly, we were not in a position to and do not express an opinion on the comparatives for 2004 with respect to inventories and related income statement balances.

Because we were only requested to review the financial report for the year ended 30 June 2005 by the Company in February 2006, we were unable to verify the quantities of inventories on hand and there were no satisfactory review procedures that we could perform to obtain reasonable assurance that inventories as at balance date was properly recorded. Since opening inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations for the year ended 30 June 2005 and opening retained profits might be necessary for 30 June 2004.

Statement

Based on our review, which is not an audit, and except for the effects of such adjustments, if any, as might have been determined necessary had the limitation discussed in the qualification paragraph not existed, we have not become aware of any matter that makes us believe that the financial report of Advanced Surgical Design & Manufacture Limited is not in accordance with:

- a. the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of the Company as at 30 June 2005 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards and the Corporate Regulations 2001; and
- b. other mandatory financial reporting requirements in Australia.



S M WHIDDETT
Partner



MOORE STEPHENS SYDNEY

Dated in Sydney this 3rd day of July 2006

For personal use only