ASX disclosure information

Results for release to the market

		Percentage change %		Amount $
Revenue from continuing operations	up	72%	to	2,648,021
Loss from continuing operations after tax attributable to members	down	53%	to	(341,312)
Net Loss for the year attributable to members	down	53%	to	(341,312)
Loss from continuing operations before tax	down	27%	to	(943,654)

Distributions

	Amount per security	Franked amount per security
Paid in current period	Nil	n/a
Paid in previous corresponding period	Nil	n/a
Payable in respect of current period	Nil	n/a
Record date for determining entitlements to the distribution	n/a	
Date the distribution is payable	n/a	

	2010 cents	**2009** cents
Net tangible assets per security	15.0	26.1

Brief explanation of results

- Revenue increase of 72% over the previous corresponding period, derived from the group's new products and international expansion.
- 227% growth in international sales. Export shipments increased to over $628,000
- Further revenue growth expected in the short to medium term from adding distribution channels and new products eligible for full private health fund rebates.
- Continued addition of European distributors contributing to export growth – more expected to be appointed in the coming months.
- $1,381,000 invested in product development during the year, of which $1,157,000 capitalised.
- New products being launched in the new financial year.
- Income tax benefit of $602,000 (2009: $565,000) due to the R&D tax concession claims available to the Group which is recoverable in cash from the ATO following lodgment of the relevant income tax return.
- Loss after tax reduced to $341,312 compared to a loss of $719,739 in the previous corresponding period.

Consolidated Statement of Comprehensive Income
For the Financial Year Ended 30 June 2010

	Note	2010 $	2009 $
Revenue		**2,648,021**	1,539,922
Cost of sales		**(1,016,114)**	(510,315)
Gross profit		**1,631,907**	1,029,607
Other income		**127,612**	214,314
Expenses:			
Marketing, selling and distribution expenses		**(1,300,443)**	(1,328,399)
Research and development expenses		**(223,209)**	(23,931)
Occupancy expenses		**(92,108)**	(206,451)
Share-based payments expenses		**(86,250)**	(29,647)
Corporate expenses		**(340,079)**	(314,797)
Administration expenses		**(486,239)**	(592,787)
Other expenses		**(104,194)**	(12,030)
Finance expenses		**(70,651)**	(20,469)
Loss before income tax		**(943,654)**	(1,284,590)
Income tax benefit		**602,342**	564,851
Loss for the year		**(341,312)**	(719,739)
Other comprehensive income			
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year	2	**(341,312)**	(719,739)
Loss attributable to:			
Members of the parent entity		**(341,312)**	(719,739)
Non-controlling interests		**-**	-
		(341,312)	(719,739)
Total comprehensive income attributable to:			
Members of the parent entity		**(341,312)**	(719,739)
Non-controlling interests		**-**	-
		(341,312)	(719,739)

Notes to the financial statements are included on pages 5 to 36.

Consolidated Statement of Changes in Equity
For the Financial Year Ended 30 June 2010

	Issued capital	Reserves	Retained earnings	Total
	$	$	$	$
Balance at 1 July 2008	5,645,655	609,240	(1,673,021)	4,581,874
Total comprehensive income for the year	-	-	(719,739)	(719,739)
Further costs of initial public offering	(23,678)	-	-	(23,678)
Employee share options - value of employee services	-	147,440	-	147,440
Employee share options lapsed - value of employee services reversed	-	(117,793)	-	(117,793)
Balance at 30 June 2009	**5,621,977**	**638,887**	**(2,392,760)**	**3,868,104**
Balance at 1 July 2009	5,621,977	638,887	(2,392,760)	3,868,104
Total comprehensive income for the year	-	-	(341,312)	(341,312)
New shares issued during the year	195,084	-	-	195,084
Employee share options - value of employee services	-	86,250	-	86,250
Balance at 30 June 2010	**5,817,061**	**725,137**	**(2,734,072)**	**3,808,126**

Notes to the financial statements are included on pages 5 to 36.

Consolidated Statement of Financial Position
As at 30 June 2010

	Note	**2010**	2009
ASSETS		**$**	$
Current assets			
Cash and cash equivalents	5A	**251,728**	603,670
Trade and other receivables	5B	**361,742**	176,920
Other assets	5C	**188,677**	36,863
Inventories	5D	**1,265,086**	1,316,408
Income tax receivable	5E	**600,520**	275,867
Total current assets		**2,667,753**	2,409,728
Non-current assets			
Other financial assets	5F	**12,409**	11,771
Medical instruments held in store	5G	**433,978**	590,611
Property, plant and equipment	5H	**1,945,038**	1,245,955
Intangible assets	5I	**1,956,652**	892,587
Total non-current assets		**4,348,077**	2,740,924
TOTAL ASSETS		**7,015,830**	5,150,652
LIABILITIES			
Current liabilities			
Trade and other payables	5J	**333,268**	373,269
Borrowings	5K	**900,443**	179,144
Provisions	5L	**104,132**	90,848
Deferred income	5M	**146,065**	58,685
Total current liabilities		**1,483,908**	701,946
Non-current liabilities			
Borrowings	5K	**1,061,149**	267,877
Provisions	5N	**33,654**	46,447
Deferred income	5M	**628,993**	266,278
Total non-current liabilities		**1,723,796**	580,602
TOTAL LIABILITIES		**3,207,704**	1,282,548
NET ASSETS		**3,808,126**	3,868,104
EQUITY			
Issued capital	5O	**5,817,061**	5,621,977
Reserves	5P	**725,137**	638,887
Retained earnings		**(2,734,072)**	(2,392,760)
TOTAL EQUITY		**3,808,126**	3,868,104

Notes to the financial statements are included on pages 5 to 36.

Consolidated Statement of Cash Flows
For the Financial Year Ended 30 June 2010

	Note	**2010**	2009
		$	$
Cash flows from operating activities			
Receipts from customers		**2,822,141**	1,838,390
Payments to suppliers and employees		**(3,494,773)**	(3,837,562)
Government revenue grants received		**23,647**	53,308
Income tax received		**277,689**	290,593
Interest and other costs of finance paid		**(70,651)**	(20,469)
Net cash outflow from operating activities	6	**(441,947)**	(1,675,740)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	10,000
Purchase of property, plant and equipment		**(903,359)**	(123,754)
Purchase of medical instruments		**(61,626)**	(295,597)
Government grants received for acquisition of plant and equipment		**497,607**	155,443
Development expenditure capitalised		**(1,157,892)**	(561,643)
Interest received		**5,619**	102,108
Net cash outflow from investing activities		**(1,619,651)**	(713,443)
Cash flows from financing activities			
Proceeds from issues of share capital		**195,084**	-
Proceeds from related party borrowings		**450,000**	-
Proceeds from other borrowings		**2,498,602**	330,000
Repayment of other borrowings		**(1,434,030)**	(73,118)
Net cash inflow from financing activities		**1,709,656**	256,882
Net decrease in cash and cash equivalents		**(351,942)**	(2,132,301)
Cash and cash equivalents at the beginning of the financial year		**603,670**	2,734,625
Net effect of exchange rate changes on the balance of cash held in foreign currencies		**-**	1,346
Cash and cash equivalents at end of the financial year	6	**251,728**	603,670

Notes to the financial statements are included on pages 5 to 36.

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

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1. Basis of Preparation

1A. This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.
The accounting policies adopted in the preparation of this Appendix 4E are consistent with those disclosed in the financial report for the year ended 30 June 2009.

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for the consolidated entity consisting of Austofix Group Limited and its subsidiaries. When the group restructured in 2006, Austofix Surgical Pty Ltd was deemed to be the acquiring entity under AASB 3: Business Combinations and therefore is treated as having acquired Austofix Group Limited for the purposes of determining the split of share capital and pre-acquisition retained earnings of the Group. The effect of this determination in the Group financial statements is a $9,000 increase in share capital and $9,000 decrease in retained earnings.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001.*

Compliance with IFRS
The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board

Historical cost convention

These financial statements have been prepared on an accruals basis and are based on the historical cost convention, except for manufacturing plant and equipment which is carried at fair value following a revaluation as at 30 June 2008.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 4.

(b) New accounting standards and interpretations

The Group has adopted the following new and revised Accounting Standards issued by AASB that are mandatory to apply to the current year. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements
AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- The replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of "other comprehensive income". In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- The adoption of single statement approach to the presentation of the Statement of Comprehensive Income; and
- Other financial statements are renamed in accordance with the Standard.

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Segments
From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.
As a result of the adoption of the revised AASB 8 certain cash generating units have been redefined having regard to the requirements of AASB 136: Impairment of Assets.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Austofix Group Limited (''Company'' or ''Parent Entity'') as at 30 June 2010 and the results of all subsidiaries for the year then ended. Austofix Group Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.
Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.
Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.
Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.
Investments in subsidiaries are accounted for at cost in the individual financial statements of Austofix Group Limited.

(d) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.
Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).
Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "al fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement
Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.
Amortised cost is calculated as
a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments,
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
d. less any reduction for impairment.
The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.
The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss
Financial assets are classified at "fair value through profit or loss" when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.
(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.
Loans and receivables are included in current assets. except for those which are not expected to mature within 12 months after the end of the reporting period (All other loans and receivables are classified as non-current assets,)

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Both the functional and presentation currency of the Company is Australian dollars (A$).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date, with any gain or loss on translation recognised in the statement of comprehensive income for the year.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and cash flow statement comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

(h) Trade receivables

A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer. All trade receivables are recognised at the amounts receivable as they are due for settlement between 15 and 60 days. Collectability is continually reviewed and uncollectible debts are written off. A provision for doubtful debts is raised where there is objective evidence that the Group will not be able to collect the debt.
The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expense in the statement of comprehensive income.

(i) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.
Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Raw Materials - purchase cost on a first in, first-out basis. The cost of purchase comprises the purchase price of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of acquisition.
Finished goods and work-in-progress - Costs are assigned to individual items of finished goods on a standard-cost basis. Cost comprises direct materials and labour and an appropriate portion of variable and fixed overhead expense allocated based on normal operating capacity. Costs are assigned on the basis of weighted average costs.
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.

(j) Non-current inventories

Medical instruments not yet in use
Medical instruments used in operating procedures are initially treated as inventories of medical instruments not yet in use while they are held in the Company's stores. As instruments are supplied to hospitals they are transferred to depreciable assets to properly reflect their being brought into use.

(k) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value except for manufacturing plant and equipment which is carried at fair value following a revaluation as at 30 June 2008. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation
Depreciation is calculated on either a straight-line basis or a diminishing value basis as appropriate over the estimated useful lives of the assets as follows:

- Plant and equipment – over 3 to 10 years
- Medical instrument sets in use – over 5 years
- Office equipment – over 3 to 10 years
- Furniture and fittings – over 5 to 10 years

Instrument sets are not depreciated until they are put into use.

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

(l) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the lease term.

Finance Leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the fair value of the leased property, or if lower, the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the statement of comprehensive income.

(m) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Intangible assets

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably.

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 5 to 10 years.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note 2(n) for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(o) Trade and other payables

Trade and other payables are carried at amortised cost: due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 45 days of recognition.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred. The Group does not currently hold qualifying assets, but if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing). Borrowing costs include interest on bank overdrafts and short-term and long-term borrowings.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits

(i) Wages and salaries, annual leave and sick 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 provisions 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. Sick leave does not accumulate.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and 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.

(s) Share-based payment transactions

Austofix provides benefits to Directors and senior employees (including KMP) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The fair value of options granted under the Austofix Group Share 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 is determined by an external valuer using a binomial model: further details of which are given in note 37.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Austofix Group Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- the grant date fair value of the award;
- the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- the expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged to previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Austofix Group Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Austofix Group Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The following specific criteria must also be met before revenue is recognised for the major business activities as follows:

(i) Sale of goods

The Group manufactures and sells a range of orthopaedic devices. Revenue is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer when goods have been dispatched to a customer pursuant to a sales order.

(ii) Rendering of services

Revenue from consulting services provided is recognised by reference to the stage of completion of a contract or the time of completion of the contract and billing of the customer.

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Interest

Revenue is recognised as interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(u) Income tax

Current tax assets and liabilities for the current year and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of 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 profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

(v) Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Austofix Group Limited is the head entity in the tax-consolidated group.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ''stand alone taxpayer' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.
Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.
Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(x) Government grants

Government capital grants are recognised in the statement of financial position as a liability when the grant payment is received. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders' equity.
When the grant relates to an asset (investment grants relating to capital equipment), the fair value is credited to deferred income and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

(y) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, 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 year.
(ii) 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(z) 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(aa) Significant accounting judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. 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 and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.
Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.
Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Significant accounting judgements

Impairment of non-financial assets other than intangibles
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Management do not consider that the triggers for impairment testing have been significant enough and as such these assets have not been tested for impairment in this financial period.

Capitalised development costs
Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.
Taxation
The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position.
Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.
Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

(b) Significant accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The 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.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.
The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

Estimation of useful lives of tangible assets
The estimation of the useful lives of tangible assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Estimation of capitalisation amounts and useful lives of intangible assets
The estimation of the amounts of product development expenditure to be capitalised as intangible assets is based on the cost of the work done and the ongoing value of the products being created by that work. The estimation of the useful lives of intangible assets has been based on historical experience of product life cycles. In addition, the continuing value of the assets is assessed at least once per year and considered against the remaining useful life of the products to which the assets relate. Adjustments to useful lives are made when considered necessary.

2. Loss for the Year

Loss for the year includes the following items of income and expense:

(a) Income:

	2010 $	2009 $
Sales Revenue		
Sales of goods to hospitals and distributors	**2,518,612**	1,136,916
Sales of goods made for other manufacturers	**129,409**	403,006
	2,648,021	1,539,922
Other income		
Interest income	**2,334**	94,958
Currency exchange gain	**4,362**	9,383
Government grant income	**120,916**	99,973
Gain on disposal of plant and equipment	**-**	10,000
	127,612	214,314

(b) Expenses:

	2010 $	2009 $
(a) Depreciation, impairment and amortisaation		
Depreciation and amortisation	**352,783**	236,973
Allowance for impairment of doubtful debts	**-**	(31,961)
	352,783	205,012
(b) Finance costs		
Finance charges payable under finance leases and hire purchase contracts	**70,651**	13,402
Foreign exchange losses	**-**	7,067
	70,651	20,469
(c) Lease payments and other expenses included		
Minimum lease payments - operating leases	**72,123**	133,814
	72,123	133,814
(d) Employee benefits expense		
Wages and salaries	**466,718**	1,854,975
Defined contribution superannuation expense	**99,527**	164,581
Annual and long service leave expense	**4,864**	31,292
Share-based payments expense	**86,250**	29,647
Other employee benefits expense	**46,412**	250,850
	703,771	2,331,345
(e) Research and development expense		
Total research and development expenditure incurred	**1,381,101**	585,574
Less capitalised into product development	**(1,157,892)**	(561,643)
	223,209	23,931
(f) Other expenses		
Foreign exchange losses	**-**	12,030
	-	12,030

2. Loss for the Year (continued)

(a) Income tax benefit	**2010**	2009
	$	$
The major components of income tax benefit in the statement of comprehensive income are:		
Current income tax		
Current income tax benefit	**(600,542)**	(276,236)
Adjustments in respect of current income tax of previous years	**(1,800)**	(173,347)
Deferred income tax		
Deferred tax assets now recognised	**-**	(115,268)
Income tax benefit reported in the statement of comprehensive income	**(602,342)**	(564,851)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax benefit	**(943,654)**	(1,284,590)
Tax at the Australian tax rate of 30% (2009 - 30%)	**(283,096)**	(385,377)
Adjustments in respect of permanent differences:		
Prior year tax losses not recognised brought forward	**(355,222)**	(268,696)
Share-based payments (equity settled)	**(25,875)**	8,894
Research and development tax offsets at 30% (2009: 30%)	**(190,251)**	(55,247)
Tax losses not recognised	**253,902**	170,244
	(600,542)	(564,851)
Adjustments for current tax of prior periods	**(1,800)**	-
Income tax benefit	**(602,342)**	(564,851)

3. Commentary on Results

Operating Activities

Total revenue for the year was 72% higher than the previous corresponding period particularly in sales to domestic hospitals (100% increase) and new overseas distributors (227% increase).

Domestic sales of Austofix products are increasing due to a number of important factors: our unique distribution model, growing range of products, competitive pricing and adherence to providing the highest quality of products. These commitments are attractive to surgeons and patients as they reduce invasive surgery and minimise patient recovery times.

Austofix has significantly expanded the number of its products for which it is able to access full private hospital rebates. With access to key markets, namely private hospitals in Australia, sales have been growing significantly. Additional high volume new products were added to the rebate list in August 2010.

In addition to the domestic market, Austofix continues to build its overseas distribution. The first order from Dubai worth more than $200,000 was shipped late in December 2009: additional overseas distributors were appointed in Europe and South America. Sales to distributors appointed in the past 12 months are building, as these distributors obtain local regulatory approvals and gain customer acceptance.

In the short to medium term Europe looks to be the most promising expansion market for Austofix. Distributor agreements have been signed and initial orders received from Turkey, Greece, Spain, the UK and Ireland and Romania. Distributors from Austria, Slovakia and the Czech Republic have signed agreements and placed orders since 30 June 2010. This brings to 16 the total number of overseas distributors, with ten appointed in the past year. Although small in number, we have already had repeat orders from Spain, South Africa and Turkey. We are encouraged by our products' acceptance in Spain following our official launch event at the Australian Embassy during the European Trauma Conference in Madrid in June 2010, which attracted 40 orthopaedic surgeons.

Austofix's total hip replacement products are currently in the final stages of production and will be launched into the Australian market during the first half of the 2010/11 financial year. Entry to this $250m Australian market comes at an opportune time. Austofix intends to provide products at cost effective prices and in this way, help to relieve at least some of the financial pressure on the public system. Austofix has made a significant investment in hip stock in the quarter ended 30 June 2010 ready for the launch in the 2010-11 financial year.

Investing Activities

Austofix remains focused on directing funds to product development to drive revenue growth in proprietary products in a cost effective manner.

The development program is progressing well. Significant investment in research and development continued and this investment will result in the release of additional major joint and trauma products by Austofix in the next 12 months and beyond. These include extensions to the current product range to augment the Hyperion hip, Tectona hip plate and H2 hip nail that are already in the market. A new bone void filler was added to the product range in February 2010 and clinical trials are scheduled to commence shortly.

$1,381,000 was invested in research and development in the year, of which $1,157,000 has been capitalised as product development costs. The amount of research and development expensed as an operating cost related to longer term research projects for which the returns are not yet sufficiently clear to warrant capitalisation.

Instruments for implanting Austofix products are capitalised as non-current inventories upon acquisition, as they are generally retained by Austofix and loaned (in accordance with normal industry practice) to the hospitals carrying out the implant procedures. During the year Austofix's investment in instruments for new products (VRP, Tectona, Hyperion) increased by $61,000.

As a result of the expansion of distribution channels, the company has built capacity to ramp up production in the new financial year. With the valuable assistance of the Commonwealth and State Governments through the Innovation and Investment Fund for South Australia ("IIFSA") funding program, and NAB through its equipment finance facility, plant and equipment totaling $965,000 was acquired during the year.

Financing Activities
During the year the Company entered into an equipment financing agreement with National Australia Bank, whereby NAB provided funding for the purchase of new plant and equipment, particularly in the second half-year.

The working capital finance facility with NAB was utilised periodically through the year being drawn on a needs basis and subsequently repaid completely. As at 30 June 2010 it was drawn to the extent of $126,000. The facility limit is $700,000.

During the year 975,420 options over ordinary shares in the company were exercised, contributing $195,084 to issued capital.

During June 2010 parties related to three of the directors contributed $450,000 in debt funds which, subject to shareholder approval at the 2010 AGM, will be converted into 450,000 new fully paid ordinary shares at $1.00 per share. These funds are to provide working capital to allow the Company to take advantage of certain growth opportunities that are currently available.

$497,607 was received from the IIFSA grant during the 2009-10 financial year plus an additional $26,834 in July 2010. A total of $916,429 was received from the IIFSA grant program during its 3-year duration. The program has now closed.

4. Sales of Assets

Sales of assets in the ordinary course of business have given rise to the following profits and losses:

	2010	2009
Net profits	$	$
Profit on sale of plant and equipment	-	10,000
	-	10,000

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

5. Notes to the Statement of Financial Position

A Current assets – cash and cash equivalents

	2010 **$**	2009 $
Cash at bank and on hand	**251,728**	213,382
Cash on deposit	**-**	390,288
	251,728	603,670

B Current assets – trade and other receivables

	2010 **$**	2009 $
Trade receivables	**341,742**	173,635
Allowance for doubtful debts	**-**	-
	341,742	173,635
Interest receivables	**-**	3,285
Other receivables (a)	**20,000**	-
	361,742	176,920

(a) Other receivables

Export Market Development Grant receivable in respect of the 2009-10 financial year.

C Current assets – other assets

Prepayments	**13,621**	36,863
Deposits paid	**175,056**	-
	188,677	36,863

D Current assets – inventories

Raw materials	**114,686**	159,647
Work in progress	**130,633**	117,993
Finished goods - own manufacture	**787,857**	787,225
Finished goods - bought in	**231,910**	251,543
	1,265,086	1,316,408

(a) Inventory expense		
Inventories recognised as an expense in cost of sales	**959,192**	449,603

All inventory is carried at cost with $nil (2009:$nil) at net realisable value.

E Current assets – income tax receivable

Income tax refunds and research and development tax offset	**600,520**	275,867

F Non-current assets – other assets

Rental bonds	**12,409**	11,771

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

G Non-current assets – medical instruments held in store

	2010	2009
	$	**$**
At 1 July	**590,611**	185,282
Additions	**61,626**	295,597
Reclassified from instruments in use	**-**	243,694
Transfers to medical instruments in use	**(54,680)**	(133,962)
Transfers to current inventories (instruments to be sold)	**(163,579)**	-
At 30 June	**433,978**	590,611

H Non-current assets – property, plant and equipment

(a) Reconciliation of carrying amounts at the beginning and end of the year

	Furniture & fixtures	Office equipment	Plant & equipment	Medical instrument sets in use	**Total**
	$	$	$	$	**$**
Year ended 30 June 2009					
Opening net book value	67,068	44,118	1,055,436	263,214	**1,429,836**
Additions	-	42,446	81,308		**123,754**
Reclassification	-	-	-	(243,693)	**(243,693)**
Transfer from non-current instrument inventories				133,962	**133,962**
Cost of assets disposed of	-	-	(82,000)	-	**(82,000)**
Accumulated depreciation on assets disposed of	-	-	82,000	-	**82,000**
Correction of prior depreciation charge				44,313	**44,313**
Depreciation charge	(7,461)	(34,339)	(167,782)	(32,634)	**(242,216)**
Closing net book value	59,607	52,225	968,962	165,161	**1,245,955**
At 30 June 2009					
Cost or fair value	88,825	110,951	1,898,018	240,351	**2,338,145**
Accumulated depreciation	(29,218)	(58,726)	(929,056)	(75,190)	**(1,092,190)**
Net book value at 30 June 2009	59,607	52,225	968,962	165,161	**1,245,955**
Year ended 30 June 2010					
Opening net book value	59,607	52,225	968,962	165,161	**1,245,955**
Additions	35,388	183,158	684,813	-	**903,359**
Transfer from non-current instrument inventories	-	-	-	54,680	**54,680**
Depreciation charge	(6,993)	(31,744)	(167,900)	(52,319)	**(258,956)**
Closing net book value	88,002	203,639	1,485,875	167,522	**1,945,038**
At 30 June 2010					
Cost or fair value	124,213	294,109	2,582,831	295,031	**3,296,184**
Accumulated depreciation	(36,211)	(90,470)	(1,096,956)	(127,509)	**(1,351,146)**
Net book value at 30 June 2010	88,002	203,639	1,485,875	167,522	**1,945,038**

H Non-current assets – property, plant and equipment (continued)

(b) Revaluation of plant and equipment

In June 2008 the Group engaged MGS Valuation Pty Ltd, an accredited independent valuer and member of the Society of Auctioneers and Appraisers (SA) Inc, as a reference to determine the fair value of its plant and equipment. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined on the basis of market value for existing use (or continued use). Continued use assumes that the buyer and seller contemplate retention of the facilities at their present location for continuation of the current operations. The effective date of the revaluation was 30 June 2008.

Under the cost model the carrying values would have been:

	Furniture & fixtures	Office equipment	Plant & equipment	Medical instrument sets in use	**Total**
	$	$	$	$	**$**
Cost or fair value	124,213	294,109	2,582,831	295,032	**3,296,185**
Accumulated depreciation	(36,211)	(90,470)	(1,096,956)	(127,509)	**(1,351,146)**
Net book value at 30 June 2010	88,002	203,639	1,485,875	167,523	**1,945,039**

(c) Plant and equipment pledged as security for liabilities

Manufacturing plant and office equipment that is subject to hire purchase agreements is pledged as security for the related finance lease liabilities.

I Non-current assets – intangible assets

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Product development costs	Patents and licences	**Total**
	$	$	**$**
At 30 June 2009			
Cost or fair value	907,843	23,814	**931,657**
Accumulated depreciation	(39,070)	-	**(39,070)**
Net book value at 30 June 2009	868,773	23,814	**892,587**
Year ended 30 June 2010			
Opening net book value	868,773	23,814	**892,587**
Additions	1,143,600	14,292	**1,157,892**
Depreciation charge	(93,827)	-	**(93,827)**
Closing net book value	1,918,546	38,106	**1,956,652**
At 30 June 2010			
Cost or fair value	2,051,443	38,106	**2,089,549**
Accumulated depreciation	(132,897)	-	**(132,897)**
Net book value at 30 June 2010	1,918,546	38,106	**1,956,652**

I Non-current assets – intangible assets (continued)

(b) Description of the Group's intangible assets

(i) Development costs

Development costs are carried at cost less accumulated depreciation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is depreciated using the straight line method over a period of 10 years. The depreciation will be recognised in the statement of comprehensive income in the line item 'administrative expense'. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(ii) Patents and licences

Patents and licences have been acquired through patent applications relating to the Group's research and development activities and are carried at cost less accumulated impairment losses. These intangible assets have been determined to have useful lives that mirror the development costs to which they relate. The patents and licences applied for will have grants of use for a minimum of 10 years by the relevant government agency with the option of renewal without significant cost at the end of this period provided that the entity meets certain predetermined targets. Patents and licences are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

J Current liabilities – trade and other payables

	2010	2009
	$	$
Trade payables	**102,355**	246,756
Customer deposits	**74,978**	-
Other payables	**138,345**	113,383
GST liabilities	**7,158**	1,702
Related party payables	**10,432**	11,428
	333,268	373,269

K Current liabilities – borrowings

	2010	2009
Secured - at amortised cost	**$**	$
Current		
Bank loans	**126,762**	58,997
Hire purchase liabilities	**323,681**	120,147
Related party loans	**450,000**	-
	900,443	179,144
Non-current		
Bank loans	**-**	252,172
Hire purchase liabilities	**1,061,149**	15,705
	1,061,149	267,877
	1,961,592	447,021

(a) Assets pledged as security

A fixed and floating charge over the assets of the Group has been granted to National Australia Bank as security for the bank loans included in secured liabilities above.

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities under hire purchase agreements are:

	2010	2009
	$	$
Total assets pledged as security	**5,059,178**	147,392

L Current liabilities – provisions

	2010 $	2009 $
Employee benefits - annual leave	**104,132**	90,848

(a) Nature and timing of provisions

Refer to note 2 for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

M Deferred income – Government capital grants

Current liabilities		
Deferred grant income related to assets	**146,065**	58,685
	146,065	58,685
Non-current liabilities		
Deferred grant income related to assets	**628,993**	266,278
Total government grants deferred	**775,058**	324,963

The accounting policies adopted and the description of government capital grants received by the Group, including conditions attached to the grants, have been disclosed in note 1B.

(a) Movement in government capital grants

At 1 July	**324,963**	216,185
Received during the year	**497,607**	208,751
Receivable at 30 June and received after reporting date	**26,834**	-
Released to the income statement during the year	**(74,346)**	(99,973)
At 30 June	**775,058**	324,963

N Non-current liabilities – provisions

Employee benefits - long service leave	**33,654**	46,447

O Issued capital

	2010 $	2009 $
Ordinary shares	**5,817,061**	5,621,977

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Movements in ordinary share capital:

	Details	Notes	Number of shares	Issue price	$
At 1 July 2008			11,388,006		5,645,655
Year ended 30 June 2009					
Changes during the year	Transaction costs	(i)	-		(23,678)
At 30 June 2009	Balance		11,388,006		5,621,977
Year ended 30 June 2010					
Changes during the year	Options exercised	(ii)	975,420	$0.20	195,084
At 30 June 2010	Balance		12,363,426		5,817,061

(i) Transaction costs of equity raising in 2008 booked in 2009 financial year.

(ii) 975,420 new shares were issued at $0.20 upon exercise of employee share options.

(c) Reconciliation of total options issued and vested

	Issued		Vested	
	2010 number	2009 number	**2010 number**	2009 number
Options on issue at 1 July	**3,238,830**	3,503,690	**1,625,700**	1,268,046
Options granted in year	**-**	325,140	**-**	-
Options vested in year	**-**	-	**422,682**	357,654
Options exercised in year	**(975,420)**	-	**(975,420)**	-
Options lapsed inyear	**(150,000)**	(590,000)	**-**	-
Options on issue at 30 June	**2,113,410**	3,238,830	**1,072,962**	1,625,700

P Reserves

	2010 $	2009 $
Revaluation reserve	**265,499**	265,499
Employee equity benefits reserve	**459,638**	373,388
	725,137	638,887

(a) Movements in reserves

	2010	2009
Asset revaluation reserve		
Balance 1 July	**265,499**	265,499
Balance at 30 June	**265,499**	265,499
Employee equity benefits reserve		
Balance 1 July	**373,388**	343,741
Value of optons issued during the year	**86,250**	29,647
Balance at 30 June	**459,638**	373,388

6. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the statement of cash flow, cash includes cash on hand and in banks and investments in money market instruments. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2010	2009
	$	$
Cash at bank and on hand	**251,728**	213,382
Cash on deposit	**-**	390,288
	251,728	603,670

(b) Financing Facilities

	2010	2009
Secured hire purchase facilities:		
Amount used	**15,720**	26,167
Amount unused	**-**	-
	15,720	26,167
Secured bank lease facilities:		
Amount used	**1,116,938**	109,685
Amount unused	**-**	-
	1,116,938	109,685
Secured bank loan facilities:		
Amount used	**252,172**	311,169
Amount unused	**-**	-
	252,172	311,169
Secured bank invoice finance facility		
Amount used	**126,762**	-
Amount unused	**573,238**	-
	700,000	-
Unsecured convertible shareholder loans		
Amount used	**450,000**	-
Amount unused	**-**	-
	450,000	-

(c) Cash Balances Not Available for Use None

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6. Notes to the Statement of Cash Flows (continued)

(d) Reconciliation of Loss From Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities

	2010 **$**	2009 $
Operating loss after income tax	**(341,312)**	(719,739)
Depreciation and amortisation	**352,782**	236,973
Allowance for doubtful debts	-	(31,961)
Share based payments	**86,250**	29,647
Grants received prior now taken to income	**(74,346)**	(46,665)
Interest income	**(2,334)**	(94,958)
Changes in net assets and liabilities:		
Trade and other receivables	**(184,822)**	252,363
Other assets	**(151,814)**	(15,807)
Inventories	**51,322**	(692,953)
Current tax assets	**(324,653)**	(137,982)
Other financial assets	**(638)**	-
Instrument spares held in store	**156,633**	-
Deferred tax balances	-	(115,268)
Trade and other payables	**(40,001)**	(365,625)
Provisions	**491**	31,291
Other current liabilities	**30,495**	(5,056)
Net cash used in operating activities	**(441,947)**	(1,675,740)

7. Details Relating to Distributions

None

Distribution Reinvestment Plans

The Company does not presently have a distribution reinvestment plan.

8. Earnings Per Share

	2010 ¢ per share	2009 ¢ per share
Basic EPS	(3.0)	(6.3)
Diluted EPS *	(3.0)	(6.3)

* As the group made a loss in 2010 and 2009 the options are not dilutive for the 2010 or 2009 financial years.

Basic Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2010 $	2009 $
Earnings (a)	(341,312)	(719,739)

	2010 No.	2009 No.
Weighted average number of ordinary shares (b)	11,622,285	11,388,006

8. Earnings Per Share(continued)

(a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of comprehensive income as follows:

	2010 $	2009 $
Net loss	(341,312)	(719,739)
Other	-	-
Earnings used in the calculation of basic EPS	(341,312)	(719,739)

(b) Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below).

Diluted Earnings per Share

The earnings and weighted average number of ordinary and potential ordinary share used in the calculation of diluted earnings per share are as follows:	2010 $	2009 $
Earnings (a)	(341,312)	(719,739)
	2010 No.	**2009 No.**
Weighted average number of ordinary shares and potential ordinary shares (b), (c), (d)	11,622,285	11,388,006

(a) Earnings used in the calculation of diluted earnings per share reconciles to net loss in the statement of comprehensive income as follows:

	2010 $	2008 $
Net loss	(341,312)	(719,739)
Other	-	-
	(341,312)	(719,739)

(b) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2010 No.	2009 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	11,622,285	11,388,006
Effect of options on issue *	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	11,622,285	11,388,006

* As the Group made a loss in 2010 and 2009 the options are not dilutive for both the 2010 and 2009 financial years.

8. Earnings Per Share (continued)

(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	2010 No.	2009 No.
	450,000	-

(d) Weighted average number of converted, lapsed, or cancelled potential ordinary shares used in the calculation of diluted earnings per share:

	2010 No.	2009 No.
	N/A	N/A

9. Net Tangible Assets Per Share

	2010 c per share	2009 c per share
Net tangible assets per share	15.0	26.1

10. Contingent Liabilities and Contingent Assets

	2010 $	2009 $
Contingent liabilities	-	-
Contingent assets	-	-

11. Operating Segments

(i) Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. These internal reports are expressed in $000.

The Group is managed primarily on the basis of product category offerings within a single primary industry segment, being health care equipment. Operating segments are therefore determined on the same basis.

Reported segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold provided by the segment;
- The manufacturing process;
- The type or class of customer for the products;
- The distribution method; and external regulatory requirements.

Types of products and services by segment

Manufacturing of implants

The manufacturing segment manufactures metal plates, screws and nails for implanting into patients, instruments for the use of surgeons and components for other manufacturers. All products produced are aggregated as one reportable segment as the products are similar in nature, they are manufactured and distributed to similar types of customers and they are subject to a similar regulatory environment.

Distribution
The distribution segment distributes Austofix products around Australia and internationally. Significant medical equipment and inventories are the major operating assets in this segment.

(ii) Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted
Unless stated otherwise, all amounts reported to the board of directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Inter-segment transactions
An internally determined transfer price is set for all inter-entity sales. The price is re-set half-yearly and is based on a fully absorbed cost of manufacture so that value of inventory held in the acquiring company approximates cost to the Group. All such transactions are eliminated on consolidation for the Group's financial statements.
Corporate charges are allocated to reporting segments based on the segment's overall proportion of revenue generation within the Group. The board of directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.
Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.
Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities
Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items
The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment.

- Deferred tax assets and liabilities
- Intangible assets

Comparative information
This is the first reporting period in which AASB 8: Operating Segments has been adopted.
Comparative information has been restated to conform to the requirements of the Standard

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

(iii) Segment Performance

Year ended 30 June 2010	Manufact-uring	Distribution - Domestic	Distribution - International	Total
Revenue	$	$	$	$
External sales	127,673	1,891,945	628,403	2,648,021
Inter-segment sales	650,290	-	-	650,290
Total segment revenue	777,963	1,891,945	628,403	3,298,311
Reconciliation of segment revenue to Group revenue:				
Inter-segment elimination				(650,290)
Total Group revenue				2,648,021
Segment net profit / (loss) before tax	(216,966)	(668,366)	106,156	(779,176)
Reconciliation of segment result to group net loss before tax				
Unallocated items				
Amortisation				(93,827)
Finance costs				(70,651)
Net loss before tax from continuing operations				(943,654)

Year ended 30 June 2009	Manufact-uring	Distribution - Domestic	Distribution - International	Total
Revenue	$	$	$	$
External sales	403,006	944,688	192,228	1,539,922
Inter-segment sales	835,255	-	-	835,255
Total segment revenue	1,238,261	944,688	192,228	2,375,177
Reconciliation of segment revenue to Group revenue:				
Inter-segment elimination				(835,255)
Total Group revenue				1,539,922
Segment net profit / (loss) before tax	139,895	(1,410,432)	18,446	(1,252,091)
Reconciliation of segment result to group net loss before tax				
Unallocated items				
Finance costs				(20,469)
Other				(12,030)
Net loss before tax from continuing operations				(1,284,590)

Notes to the Financial Statements
For the Financial Year Ended 30 June 2010

(iv) Segment Assets

	Manufact-uring	Distribution - Domestic	Distribution - International	Total
As at 30 June 2010	$	$	$	$
Segment assets	2,574,456	2,435,064	133,724	5,143,244
Reconciliation of segment assets to group assets				
Inter-segment eliminations				(684,586)
Unallocated assets:				
Current tax assets				600,520
Intangibles				1,956,652
Total Group assets in continuing operations				7,015,830
As at 30 June 2009				
Segment assets	2,017,265	2,698,376	-	4,715,641
Reconciliation of segment assets to group assets				
Inter-segment eliminations				(733,443)
Unallocated assets:				
Current tax assets				275,867
Intangibles				892,587
Total Group assets in continuing operations				5,150,652

All assets are held in Australia

(v) Segment revenue– Geographical

The Group's geographical segments are determined based on the locations of customers. The following table presents revenue by geographic location of end customers:

	2010	2009
	$	$
Australia	**2,019,618**	1,086,681
South America	**31,228**	25,011
Europe	**255,799**	294,719
Asia	**70,169**	118,319
Africa	**59,824**	-
Middle East	**211,383**	15,192
Total revenue	**2,648,021**	1,539,922

(vi) Segment Liabilities

	Manufact-uring	Distribution - Domestic	Distribution - International	Total
As at 30 June 2010	$	$	$	$
Segment liabilities	4,027,490	6,017,477	-	10,044,967
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations				(6,837,263)
Total Group liabilities in continuing operations				3,207,704
As at 30 June 2009				
Segment liabilities	2,112,949	5,022,274	-	7,135,223
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations				(5,852,675)
Total Group liabilities in continuing operations				1,282,548

(vii) Major Customers

Sales to one single customer in the domestic distribution segment amounted to 31% of total external revenue and sales to one single customer in the international distribution segment amounted to 8% of total external revenue (2009: sales to one single customer in the manufacturing segment amounted to 17% of total external revenue).

12. Subsequent Events

There has not been any matter or circumstance, other than mentioned in this report, that has arisen since the end of the financial year, that has significantly affected or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

13. Other Significant Information

N/a

14. Information on Audit or Review

This preliminary final report is based on accounts to which one of the following applies.

☐	The accounts have been audited.	☐	The accounts have been subject to review.
✔	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

N/a

Description of dispute or qualification if the accounts have been audited or subjected to review.

N/a