



Preliminary Final Report of  
Austofix Group Limited  
for the Financial Year Ended 30 June 2009

ABN 16 119 490 238

*This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.*

Current Reporting Period:	Financial Year ended 30 June 2009
Previous Corresponding Period:	Financial Year ended 30 June 2008

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## Austofix Group Limited

### Results For Announcement To The Market For the Financial Year Ended 30 June 2009

#### Revenue and Net Profit/(Loss)

		Percentage change %		Amount \$
Revenue from continuing operations	up	12%	to	1,539,922
Loss from continuing operations after tax attributable to members	down	(62%)	to	(719,740)
Net loss for the period attributable to members	down	(62%)	to	(719,740)
Loss from continuing operations before tax	down	(36%)	to	(1,284,590)

#### Distributions - none

	Amount per share	Franked amount per share
Final distribution	0¢	0¢
Interim distributions	0¢	0¢

#### Brief Explanation of Revenue, Net Loss and Distributions

During the 2008/9 financial year the Group's sales mix continued to evolve from the historic reliance on intramedullary nailing systems and contract manufacture towards sales of new orthopaedic fixation products, particularly those designed and manufactured in-house. Revenue from sales in Australia of own-manufactured finished product increased by 77%. Of key significance is the increased gross margin achieved in 2008/9 which further supports the strategy to pursue development of innovative products in-house.

In 2008/9 Austofix continued to invest into retaining in-house resources in the areas of regulatory compliance and clinical feedback as part of an ongoing program to enhance our quality management system.

Significant investment in research and development continued (\$585,000 was invested in 2008/09) and this investment will result in the release of additional major joint and trauma products by Austofix in the next 12 months and beyond.

Three new products were launched during the year and further innovations on these products were developed and released at the end of the year. Austofix built up stock levels for our own manufactured products to support the forecast significant increase in sales. Further medical instruments and inventories were acquired to support the new products.

The second half of the year saw a strategic focus on capitalising on overseas distribution opportunities that emerged following the release of new own manufactured product. In addition to the Australian market, Austofix is continuing to successfully progress negotiations to appoint overseas distributors. During the last quarter distributors have been appointed in Greece, Turkey and Brasil with Austofix's Greek representatives reporting immediate local sales. Further international opportunities are being actively pursued. International sales are expected to grow significantly as more distributors are appointed during 2009/10 and their penetration of local markets increases.

During the year the net cash impact of investments in capital equipment (\$124,000) and capitalized medical instruments for implanting new products (\$295,000) was compensated by the receipt of approximately \$155,000 from the \$1.6 million grant available to Austofix pursuant to the Innovation and Investment Fund for South Australia ("IIFSA").

# Austofix Group Limited

## Income Statement For the Financial Year Ended 30 June 2009

	Notes	Consolidated	
		2009	2008
		\$	\$
<b>Continuing operations</b>			
<b>Revenue</b>			
Sale of goods and services	2	1,539,922	1,378,498
Cost of sales		(510,315)	(712,749)
<b>Gross profit</b>		<b>1,029,607</b>	665,749
Other income		214,314	148,915
<b>Expenses:</b>	2		
Marketing, selling and distribution expenses		(1,328,399)	(1,093,898)
Research and development expenses	2(e) *	(23,931)	(113,152)
Occupancy expenses		(206,451)	(185,398)
Share-based payments expenses		(29,647)	(295,522)
Corporate expenses		(314,797)	(295,448)
Administration expenses		(592,787)	(632,679)
Other expenses		(12,030)	(88,774)
Finance expenses		(20,469)	(13,493)
<b>Loss before costs of gaining ASX listing</b>		<b>(1,284,590)</b>	(1,903,700)
Costs of gaining ASX listing of existing shares		-	(101,274)
<b>Loss from continuing operations before tax</b>		<b>(1,284,590)</b>	(2,004,974)
Income tax benefit		564,851	113,051
<b>Loss after tax from continuing operations</b>		<b>(719,739)</b>	(1,891,923)
<b>Net loss for the year</b>		<b>(719,739)</b>	(1,891,923)

Notes to the financial statements are included on pages 6 to 20.

\* \$585,000 was invested in research and development in the year, of which \$561,000 has been capitalised as product development costs. The amount of research and development expensed as an operating cost relates to longer term research projects for which the returns are not yet sufficiently clear to warrant capitalisation.

## Austofix Group Limited

### Statement of Changes in Equity For the Financial Year Ended 30 June 2009

Consolidated	Notes	Contributed equity \$	Reserves \$	Retained earnings \$	Total \$
<b>Balance at 1 July 2007</b>		2,578,681	48,219	218,902	2,845,802
Revaluation of property, plant and equipment		-	379,284	-	379,284
Related income tax		-	(113,785)	-	(113,785)
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>265,499</b>	<b>-</b>	<b>265,499</b>
Loss for the year		-	-	(1,891,923)	(1,891,923)
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>265,499</b>	<b>(1,891,923)</b>	<b>(1,891,923)</b>
New shares issued during the year		3,489,703	-	-	3,489,703
Costs of initial public offering		(422,729)	-	-	(422,729)
Related income tax		126,819	-	-	126,819
Related income tax derecognised		(126,819)	-	-	(126,819)
Employee share options - value of employee services		-	295,522	-	295,522
<b>Balance at 30 June 2008</b>		<b>5,645,655</b>	<b>609,240</b>	<b>(1,673,021)</b>	<b>4,581,874</b>
<b>Balance at 1 July 2008</b>		<b>5,645,655</b>	<b>609,240</b>	<b>(1,673,021)</b>	<b>4,581,874</b>
Net income recognised directly in equity		-	-	-	-
Loss for the year		-	-	(719,739)	(719,739)
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>-</b>	<b>(719,739)</b>	<b>(719,739)</b>
Further costs relating to initial public offering		(23,678)	-	-	(23,678)
Employee share options - value of employee services	2	-	147,440	-	147,440
Employee share options lapsed - value of employee services reversed	2	-	(117,793)	-	(117,793)
<b>Balance at 30 June 2009</b>		<b>5,621,977</b>	<b>638,887</b>	<b>(2,392,760)</b>	<b>3,868,104</b>

Notes to the financial statements are included on pages 6 to 20.

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# Austofix Group Limited

## Balance Sheet As at 30 June 2009

	Notes	Consolidated	
		2009	2008
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	603,670	2,734,625
Trade and other receivables		176,920	429,283
Other financial assets		36,863	21,056
Inventories		1,316,408	623,455
Income tax receivable		275,867	137,885
<b>Total current assets</b>		<b>2,409,728</b>	<b>3,946,304</b>
<b>Non-current assets</b>			
Other financial assets		11,771	16,928
Instrument sets held in store		590,611	185,282
Property, plant and equipment		1,245,955	1,429,836
Deferred tax assets		-	90,716
Intangible assets		892,587	370,014
<b>Total non-current assets</b>		<b>2,740,924</b>	<b>2,092,776</b>
<b>TOTAL ASSETS</b>		<b>5,150,652</b>	<b>6,039,080</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		373,269	738,894
Interest-bearing loans and borrowings	6	179,144	57,846
Provisions		90,848	69,268
Deferred income		58,685	41,831
<b>Total current liabilities</b>		<b>701,946</b>	<b>907,839</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	6	267,877	132,293
Deferred tax liabilities		-	205,984
Provisions		46,447	36,736
Deferred income		266,278	174,354
<b>Total non-current liabilities</b>		<b>580,602</b>	<b>549,367</b>
<b>TOTAL LIABILITIES</b>		<b>1,282,548</b>	<b>1,457,206</b>
<b>NET ASSETS</b>		<b>3,868,104</b>	<b>4,581,874</b>
<b>EQUITY</b>			
Issued capital		5,621,977	5,645,655
Reserves		638,887	609,240
Retained earnings / (accumulated losses)		(2,392,760)	(1,673,021)
<b>TOTAL EQUITY</b>		<b>3,868,104</b>	<b>4,581,874</b>

Notes to the financial statements are included on pages 6 to 20.

# Austofix Group Limited

## Cash Flow Statement For the Financial Year Ended 30 June 2009

	Notes	Consolidated	
		2009	2008
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,838,390	1,482,562
Payments to suppliers and employees		(3,837,562)	(2,747,587)
Government revenue grants received		53,308	-
Income tax received		290,593	-
Interest and other costs of finance paid		(20,469)	(13,493)
<b>Net cash outflow from operating activities</b>	6	<b>(1,675,740)</b>	<b>(1,278,518)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	4	10,000	-
Purchase of property, plant and equipment		(123,754)	(499,376)
Purchase of capitalised instruments		(295,597)	-
Government grants received for acquisition of plant and equipment		155,443	236,545
Development expenditure capitalised		(561,643)	(370,014)
Interest received		102,108	91,804
<b>Net cash outflow from investing activities</b>		<b>(713,443)</b>	<b>(541,041)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of share capital		-	3,489,703
Costs incurred on raising share capital		-	(422,728)
Proceeds from borrowings		330,000	36,542
Repayment of HP borrowings		(54,287)	(59,928)
Repayment of borrowings		(18,831)	-
<b>Net cash inflow from financing activities</b>		<b>256,882</b>	<b>3,043,589</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(2,132,301)</b>	<b>1,224,030</b>
Cash and cash equivalents at the beginning of the financial year		2,734,625	1,562,618
Net effect of exchange rate changes on the balance of cash held in foreign currencies		1,346	(52,023)
<b>Cash and cash equivalents at end of year</b>	6	<b>603,670</b>	<b>2,734,625</b>

Notes to the financial statements are included on pages 6 to 20.

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# ***Austofix Group Limited***

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## **Notes to the Financial Statements For the Financial Year Ended 30 June 2009**

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# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 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 2008.

#### **1B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Foreign currency translation**

Both the functional and presentation currency of the Company is Australian dollars (A\$). 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 balance sheet date, with any gain or loss on translation recognised in the income statement for the year.

##### **(b) Non-current inventories**

###### *Medical instrument sets not yet in use*

Medical instruments used in operating procedures are initially treated as inventories of medical instrument sets 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.

##### **(c) 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.

###### *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 income statement in the year the item is derecognised.

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 1B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) 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 balance sheet 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.

#### (e) 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.

#### (f) Inventories

Finished goods and raw materials and work in progress are valued at the lower of cost and net realisable value. Costs are assigned to individual items of finished goods on a standard-cost basis. Cost comprises materials, labour and an allocation of overhead.

#### (g) Trade and other 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 debtors 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.

#### (h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

#### (i) 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, 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.

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 1B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods*

Revenue is recognised when the significant risks 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 despatched to a customer pursuant to a sales order.

##### *Interest*

Revenue is recognised as the 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.

#### (k) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet 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 where 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, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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 where 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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. 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 balance sheet date.

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

#### (l) 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).

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 1B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Other taxes

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

- where 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 balance sheet.

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 are classified as operating cash flows.

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

#### (n) 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 36.

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 income statement 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 income statement 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.

#### (o) Government grants

Government grants are recognised in the balance sheet as a liability when the grant 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 income statement over the expected useful life of the relevant asset by equal annual instalments.

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 1B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) 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 1B(c) 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.

#### (q) 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.

##### *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 income statement.

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 2. Loss From Ordinary Activities

Loss from ordinary activities before income tax includes the following items of revenue and expense:

**(a) Income:**

	Consolidated	
	2009	2008
	\$	\$
<b>Sales Revenue</b>		
Sales of goods to hospitals and distributors	1,136,916	751,664
Consulting and other services	-	29,254
Sales of goods made for other manufacturers	403,006	597,580
	<b>1,539,922</b>	<b>1,378,498</b>
<b>Other income</b>		
Interest income	94,958	91,804
Currency exchange gain	9,383	36,751
Government grant income	99,973	20,360
Gain on disposal of plant and equipment	10,000	-
	<b>214,314</b>	<b>148,915</b>

**(b) Expenses:**

**(a) Depreciation, impairment and amortisation included in income statement**

Depreciation and amortisation	237,704	204,172
Allowance for impairment of doubtful debts	(31,961)	31,961
	<b>205,743</b>	<b>236,133</b>

**(b) Finance costs**

Finance charges payable under finance leases and hire purchase contracts	13,402	13,308
Interest expense	7,067	185
	<b>20,469</b>	<b>13,493</b>

**(c) Lease payments and other expenses included in income statement**

Minimum lease payments - operating leases	133,814	118,679
	<b>133,814</b>	<b>118,679</b>

**(d) Employee benefits expense**

Wages and salaries	1,854,975	1,538,112
Defined contribution superannuation expense	164,581	126,220
Annual and long service leave expense	31,292	1,775
Share-based payments expense	29,647	295,522
Other employee benefits expense	250,850	142,877
	<b>2,331,345</b>	<b>2,104,506</b>

**(e) Research and development expense**

Total research and development expenditure incurred	585,574	483,166
Less capitalised into product development	(561,643)	(370,014)
	<b>23,931</b>	<b>113,152</b>

**(f) Other expenses**

Foreign exchange losses	12,030	88,774
	<b>12,030</b>	<b>88,774</b>

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# **Austofix Group Limited**

## **Notes to the Financial Statements For the Financial Year Ended 30 June 2009**

### **3. Commentary on Results**

#### **Summary**

Austofix is an Australian orthopaedic trauma company that designs, develops and distributes medical devices to significantly improve the quality of life for patients who have suffered fragility fractures and help resolve the significant publicly funded health care issues encountered in the treatment of osteoporosis.

Austofix uses its skills in product design and commercialisation, its active interest in identifying new technologies and a close relationship with surgeons and research teams, to develop products that help patients to return to the freedom of their life before their accident or illness.

The second half of the year saw a strategic focus on capitalising on overseas distribution opportunities that emerged following the release of the VRP. In addition to the Australian public sector market, Austofix is continuing to progress negotiations to appoint overseas distributors. During the last quarter distributors have been appointed in Greece, Turkey and Brasil with Austofix's Greek representatives reporting immediate local sales of VRPs and placing a follow up order in July 2009. Further opportunities are being pursued. Volumes in this channel are expected to grow as more distributors are appointed during 2009/10 and their penetration of local markets increases.

15 August 2009 was a key milestone date for the company as from this date Austofix is able to access full private hospital rebates for a number of products. With access to key markets, namely private hospitals in Australia, it is expected that sales will grow significantly.

In August 2009 the company signed a major contract with a large Australian public hospital. Under the contract Austofix has supplied a wide range of its orthopaedic implants to the hospital. In addition to the immediate boost to revenue at the start of the new financial year, the contract reflects the growing acceptance of Austofix products within the public hospital sector. Both the quality of our products and our commercial pricing are gaining traction in the public system as it seeks to address spiraling health care costs.

In October 2009 Austofix will commence product registration for FDA purposes, a key step to capitalise on strong interest for distribution of Austofix products in the United States.

#### **Operating Activities**

Sales revenue grew over the previous year, particularly in sales of finished product to Australian hospitals (up 77%) and new overseas distributors, at the expense of contract manufacture for other medical equipment suppliers.

Revenue from the sale of Austofix's traditional nail implants remain at higher levels than in the previous year. During the year development of the second of the suite of new implant products, the Austofix Tectona Hip Plate, was completed. Production commenced and instrumentation was acquired with the product released in February 2009. This follows on from the first new product, the VRP (Volar Radius Plate), which has made good progress since its launch in July 2008. With the new products introduced in January and February 2009 (Tectona and Hyperion) and further products released in June and July 2009 (range extensions of the VRP) revenues are expected to continue to grow.

After the financial reports for the year ended 30 June 2008 were completed and lodged, the decision was taken to consolidate the member companies of the Austofix Group for income tax purposes with effect from 1 July 2007. This increased the amount of research and development tax concessions available to the group from that date and had a material positive effect (\$157,000) on operating results and cash flows for the current financial year.

The refund resulting from the research and development income tax offset for the 2007/8 year was received in May 2009. The total refund amounted to \$261,000. The tax offset receivable anticipated in respect of the 2008/9 income tax year is \$276,000.

An export market development grant of \$53,000 in respect of the 2007/8 financial year was received late in the year. This grant was accounted for on a received basis due to previous uncertainties surrounding the funding of the grant scheme.

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### Investing Activities

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.

\$585,000 was invested in research and development in the year, of which \$561,000 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 \$295,000.

During the year Austofix invested \$124,000 in capital equipment, including \$66,000 on a new screw making machine, which is being used for production of high precision screws for the new generation VRP and Tectona plates.

The net cash impact of investments in capital equipment and capitalized medical instruments in the year was compensated by the receipt of approximately \$155,000 from the \$1.6 million grant available to Austofix pursuant to the Innovation and Investment Fund for South Australia ("IIFSA").

Further instalments of the IIFSA grant will continue to be drawn down as Austofix invests in new qualifying infrastructure to develop and produce new implantable products. As at 30 June 2009 \$1,208,000 remains available for Austofix to access under the IIFSA program.

### Financing Activities

During the year the Company entered into an equipment financing agreement with National Australia Bank, whereby NAB provided funding of \$330,000 secured on several existing items of plant and equipment. The facility is repayable over 5 years in equal monthly instalments, with the final payment due in March 2014. \$19,000 was repaid in the year and \$311,000 remained outstanding at 30 June 2009.

In April 2009 the Company entered into a secured finance facility agreement with NAB to provide working capital funding, with a facility limit of \$700,000. As at 30 June 2009 this facility had not yet been drawn upon.

Together with grant funding provided by the IIFSA for capital equipment purchases, these facilities will contribute ongoing funding for Austofix's growth.

## 4. Sales of Assets

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

	Consolidated	
	2009	2008
<b>Net profits</b>	\$	\$
Profit on sale of plant and equipment	<b>10,000</b>	-
	<b>10,000</b>	-

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 5. Accumulated losses

See Statement of Changes in Equity

### 6. Notes to the Cash Flow Statement

#### (a) Reconciliation of Cash

For the purposes of the cash flow statement, 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:

	2009 \$	2008 \$
Cash	213,382	2,234,625
Short term deposits	390,288	500,000
	<hr/> 603,670	<hr/> 2,734,625

#### (b) Financing Facilities

##### Secured hire purchase facilities:

Amount used	135,852	190,139
Amount unused	-	-
	<hr/> 135,852	<hr/> 190,139

##### Secured bank loan:

Amount used	311,169	-
Amount unused	-	-
	<hr/> 311,169	<hr/> -

##### Secured bank invoice finance facility

Amount used	-	-
Amount unused	700,000	-
	<hr/> 700,000	<hr/> -

#### (c) Cash Balances Not Available for Use

None

## Austofix Group Limited

### Notes to the Financial Statements For the Financial Year Ended 30 June 2009

#### 6. Notes to the Cash Flow Statement (continued)

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

	2009	2008
	\$	\$
<b>Operating loss after income tax</b>	<b>(719,739)</b>	(1,891,923)
Depreciation and amortisation	<b>237,704</b>	204,182
Allowance for doubtful debts	<b>(31,961)</b>	31,961
Share based payments	<b>29,647</b>	295,522
Grants received prior now taken to income	<b>(46,665)</b>	(20,360)
Interest income	<b>(94,958)</b>	(91,804)
<u>Changes in net assets and liabilities:</u>		
Trade and other receivables	<b>252,363</b>	(38,358)
Other financial assets	<b>(15,807)</b>	(21,056)
Inventories	<b>(692,953)</b>	322,972
Current tax assets	<b>(137,982)</b>	(114,806)
Deferred tax balances	<b>(115,268)</b>	115,268
Trade and other payables	<b>(365,625)</b>	(76,735)
Provisions	<b>31,291</b>	30,084
Other current liabilities	<b>(5,787)</b>	(23,465)
<b>Net cash used in operating activities</b>	<b>(1,675,740)</b>	(1,278,518)

## **Austofix Group Limited**

### **Notes to the Financial Statements For the Financial Year Ended 30 June 2009**

#### 7. Details Relating to Distributions

None

#### **Distribution Reinvestment Plans**

The Company does not presently have a distribution reinvestment plan.

#### 8. Earnings Per Share

	<b>2009</b> <b>¢ per share</b>	<b>2008</b> <b>¢ per share</b>
Basic EPS	(6.3)	(19.6)
Diluted EPS *	(6.3)	(19.6)

\* As the group made a loss in 2009 and 2008 the options are not dilutive for the 2009 or 2008 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:

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Earnings (a)	(719,740)	(1,891,923)

  

	<b>2009</b> <b>No.</b>	<b>2008</b> <b>No.</b>
Weighted average number of ordinary shares (b)	11,388,006	9,657,916

## Austofix Group Limited

### Notes to the Financial Statements For the Financial Year Ended 30 June 2009

#### 8. Earnings Per Share(continued)

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

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Net loss	(719,740)	(1,891,923)
Other	-	-
Earnings used in the calculation of basic EPS	(719,740)	(1,891,923)

(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:

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Earnings (a)	(719,740)	(1,891,923)
	<b>2009</b> <b>No.</b>	<b>2008</b> <b>No.</b>
Weighted average number of ordinary shares and potential ordinary shares (b), (c), (d)	11,388,006	9,657,916

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

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Net loss	(719,740)	(1,891,923)
Other	-	-
	(719,740)	(1,891,923)

(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:

	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Weighted average number of ordinary shares used in the calculation of basic EPS	11,388,006	9,657,916
Effect of options on issue	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	11,388,006	9,657,916

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## Austofix Group Limited

### Notes to the Financial Statements For the Financial Year Ended 30 June 2009

#### 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:

2009 No.	2008 No.
N/A	N/A

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

2009 No.	2008 No.
N/A	N/A

#### 9. Net Tangible Assets Per Share

	2009 c per share	2008 c per share
Net tangible assets per share	26.1	37.0

#### 10. Contingent Liabilities and Contingent Assets

	2009 \$	2008 \$
Contingent liabilities	-	-
Contingent assets	-	-

#### 11. Segment Information

The Group operates solely within the medical industry.

	2009 \$	2008 \$
<b>Sales revenue per region:</b>		
Australia	1,086,681	843,929
Europe	294,719	380,721
South America	25,011	13,827
Asia	118,319	140,021
Middle East	15,192	-
<b>Total sales</b>	1,539,922	1,378,498

# Austofix Group Limited

## Notes to the Financial Statements For the Financial Year Ended 30 June 2009

### 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.

- |                                     |  |                          |   |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/>            | The accounts have been audited.  | <input type="checkbox"/> | The accounts have been subject to review.           |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | 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