



MONASH IVF GROUP

ANNUAL REPORT 2014



EXCELLENCE IN SCIENCE
AND CARE TO DELIVER
WORLD CLASS INDIVIDUALISED
FERTILITY SOLUTIONS.

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ANNUAL GENERAL MEETING

28 OCTOBER 2014

2PM

RACV CLUB

Bayside Rooms 5 and 6
Level 2, 501 Bourke Street
Melbourne VIC 3000



HELPING
OUR PATIENTS
REALISE THEIR
DREAM OF
HAVING A FAMILY.

WORLD LEADERS IN FERTILITY TREATMENT, SCIENCE AND RESEARCH.

Monash IVF Group Limited (Monash IVF Group or The Group) is a driving force in the development of Assisted Reproductive Services (ARS) and we have continued to achieve many Australian and world firsts since the work of our pioneers who achieved the first IVF pregnancy in the world in 1973.

We offer a complete range of fertility treatment options including IVF (in vitro fertilisation), with a holistic approach to fertility care. Our fertility treatments and services are delivered in a professional and caring environment by a team of specialists, scientists, nurses and counsellors who are all leaders in their fields.

With over 40 years' experience and over 35,000 babies we can give our patients the best chance of realising their dream of having a family.

75

FERTILITY
SPECIALISTS

6

ULTRASOUND
CLINICS

6

SATELLITE
CLINICS

108

SCIENTIFIC
STAFF

MORE THAN

330

SUPPORT STAFF

2

DIAGNOSTIC
LABS

12

PERMANENT
CLINICS
IN AUSTRALIA

1

DAY
HOSPITAL

1

FERTILITY CLINIC
IN MALAYSIA

MONASH IVF GROUP HISTORY

1958

Monash IVF Group commenced an ovulation stimulation program in Australia.

1973

Monash IVF Group co-joint team achieved world's first human ivf pregnancy.

1980

Monash IVF Group was the first group in the world to use stimulated cycles with clomiphene citrate to achieve a pregnancy.

1981

Monash IVF group achieved 15 pregnancies resulting in 9 births (representing the 4th to 12th births in the world).



1983

Monash IVF Group achieved world's first frozen embryo pregnancy.

1984

Monash IVF Group achieved world's first frozen embryo female birth and world's first birth from donated eggs.

1985

Monash IVF Group achieved world's first birth from a sperm retrieval operation (for a blocked sperm duct).

1987

Monash IVF Group developed the world's first sperm microinjection technology (intracytoplasmic sperm injection (ICSI)).

1988

Monash IVF Group achieved Australia's first IVF surrogate pregnancy (one of the first in the world).

SINCE THE EARLY 1970's MONASH IVF GROUP HAS HELPED MANY FAMILIES ACHIEVE THEIR GOAL OF HAVING A HEALTHY BABY.

1989

Monash IVF Group achieved world's first pregnancy following intra-fallopian insemination of spermatozoa from a male with obstructive azoospermia.

1992

Monash IVF Group achieved world's first microinjection intra-fallopian transfer pregnancy.

1993

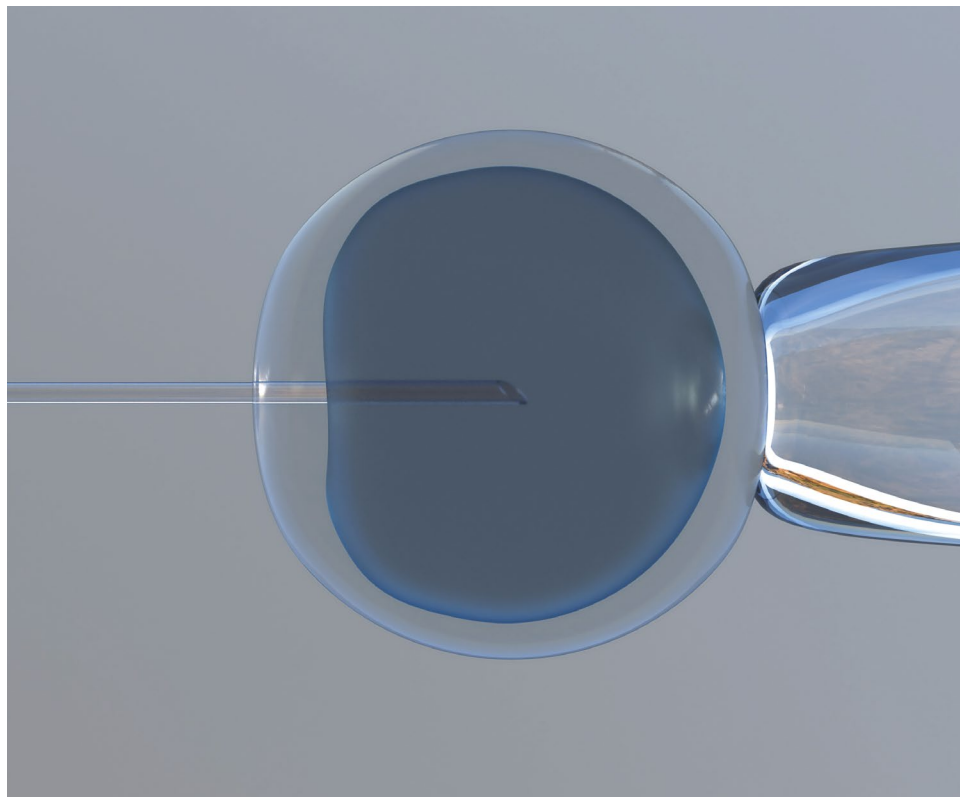
Monash IVF Group achieved Australia's first single sperm microinjection pregnancy.

1995

Monash IVF Group achieved Australia's first blastocyst baby after in-vitro maturation of human primary eggs.

1996

Monash IVF Group achieved Australia's first birth of an embryo biopsy baby (PGD) using FISH (fluorescent in situ hybridisation) technology for sex selection.



1999

Monash IVF Group achieved world's first birth from an egg frozen using vitrification.

2010

Monash IVF Group Fertility Specialist became the first Australian elected as President of the International Federation of Fertility Societies (2010 – 2013).

2013

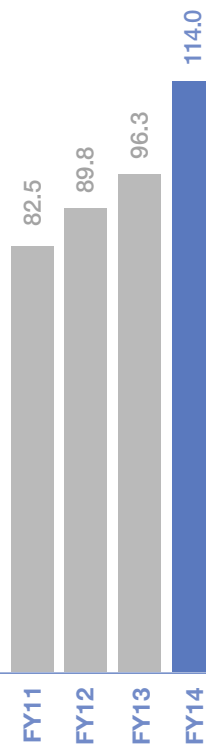
Monash IVF Group achieved Australia's first birth from frozen ovarian tissue being re-implanted.

2014

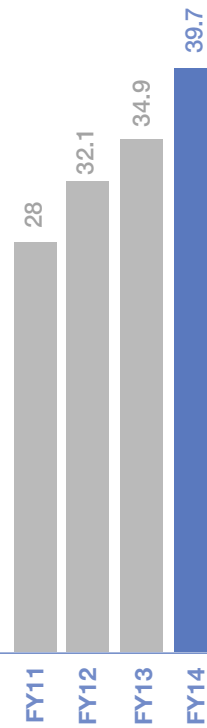
Monash IVF Group achieved Australia's first PGS pregnancy from 'Next Generation' sequencing.

FINANCIAL HIGHLIGHTS

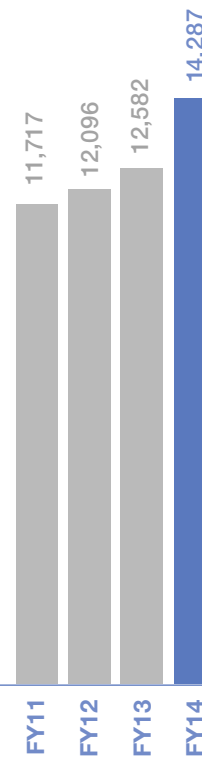
ADJUSTED REVENUE \$m⁽¹⁾



ADJUSTED EBITDA \$m⁽¹⁾



PATIENT TREATMENTS



(1) Adjusted revenue and adjusted EBITDA excludes the effect of discontinued operations, restructuring costs, IPO transaction costs and FY11 goodwill impairment.

SCIENTIFIC
AND CLINICAL
INNOVATION
TO PROVIDE
OUR PATIENTS
WITH SUPERIOR
PREGNANCY
OUTCOMES

CHAIRMAN'S STATEMENT

Mr Richard Davis
Independent Chairman



Monash IVF Group is a long standing and highly respected leader in the field of assisted reproductive services and fertility care in Australia and more recently, in Malaysia. In June 2014 our company successfully listed on the Australian Securities Exchange (ASX). I would like to extend a warm welcome to all of our new shareholders and am pleased to present our first Annual Report as a listed company.

Our listing on the ASX marks another significant milestone in the evolution of our Group and positions Monash IVF Group to further expand our business. As a publicly listed company, Monash IVF Group will have a broader exposure to the financial markets which will enable us to access capital to fund significant growth opportunities, allowing us to continue to build on our heritage of scientific excellence in the field of Assisted Reproductive Services.

The process of listing on the Australian Stock Exchange was a challenging task that required significant effort from the management team and all employees. The reporting requirements, due diligence and verification processes have in essence enabled us to conduct a comprehensive review of the business and our industry – one in which Monash IVF Group is very well positioned. The process reinforced our vision and we are excited about the future of Monash IVF Group as a listed company.

Firstly I would like to thank the previous Board members. Dr Richard Henshaw, Dr Anthony Lawrence, Prof Gab Kovacs, Mr Tom Woolley, along with Mr James Thiedeman (CEO) and Mr Rodney Fox (CFO), led by Mr Neil Broekhuizen as Chairman, worked tirelessly to lead our Company to become one of the largest providers of fertility treatments in the country. Your work is much appreciated.

I would also like to introduce and welcome the new Board of Directors for Monash IVF Group. Mr Josef Czynewski, Ms Christina Boyce and myself will join Mr Neil Broekhuizen, Mr James Thiedeman and Dr Richard Henshaw as the Company's new Board. We are an experienced, versatile and motivated group, determined to see Monash IVF Group flourish as a public company. We are delighted to serve on

behalf of all Monash IVF Group shareholders and look forward to building on the momentum established by the previous Board of Directors.

Not only has 2014 been a pivotal year in terms of ownership structure, it has also been a year in which we have delivered a strong financial performance. Our full year financial results for 2014 (FY14) exceeded our pro-forma prospectus forecasts. Total patient treatments increased by 14% on the previous year and revenues were up by 18% to \$114 million. Our strong performance in FY14 was underpinned by our leading pregnancy success rates, recorded at 32% in FY14 versus an industry average of 25%. The ongoing improvements and success in scientific and clinical practices enabled us to help more couples and individuals to attain their dream of a successful pregnancy.

OUR RESULTS IN THE YEAR ENDED 30 JUNE 2014 WERE BETTER THAN PRO-FORMA PROSPECTUS FORECASTS.

PRIOR YEAR
REVENUE WAS
IMPROVED UPON BY
18%

In addition to business growth organically we have expanded the Monash IVF Group both domestically and internationally.

During FY14 we have gained 100% ownership of KL Fertility Malaysia and expanded with acquisitions of Next Generation Fertility in Sydney and Reproductive Medicine Albury and the opening of our low intervention offering at North Lakes in Brisbane.

We also moved to 100% ownership of the Auchenflower clinic in Brisbane which will be a focus in FY15.

Our ultrasound business grew significantly during the year with an additional ultrasound clinic opening in Melbourne. The ultrasound business complements our core fertility services and is an area we will focus on growing in the future. A larger diagnostic and ultrasound business synergises with our core IVF business and allows us to provide a more comprehensive and convenient service to our patients.

Looking ahead in FY15, the Group is focused on enhancing and expanding our technological capabilities and research into patient-focused services. Monash IVF Research and Education Foundation (MREF) is the research and postgraduate medical education arm of Monash IVF Group. MREF is a highly regarded research operation. As a leader in the field of assisted reproductive services,

we maintain a deep commitment to building excellence in scientific research and clinical training to further improve patient outcomes.

The growth and success of Monash IVF Group would not be possible without our committed and dedicated staff. I would like to thank James Thiedeman and the entire Monash IVF Group team consisting of our 75 Fertility Specialists and over 440 scientific, nursing, diagnostic, pathology, patient services and administrative staff. Your efforts and exemplary service throughout the year have enabled us to achieve a lot in 2014. We all look forward to building on this success in the years ahead.



Richard Davis
Chairman
Monash IVF Group

LISTING ON THE
MARKET WILL ALLOW
US TO FURTHER
EXPAND AND PURSUE
EXCELLENCE IN
THE CLINICAL AND
SCIENTIFIC FIELD



CEO/MANAGING DIRECTOR'S REPORT

Mr James Thiedeman
CEO/Managing Director



2014 was a seminal year for Monash IVF Group. From humble beginnings, over 40 years ago, as a group of dedicated doctors, determined to help patients achieve their dream of a successful pregnancy, Monash IVF Group is today a publicly

listed company on the Australian Securities Exchange (ASX) with a heritage of scientific excellence. I am delighted to present our first Annual Report as a listed company.

Monash IVF Group was critical to the development of IVF in the 1970's and over the past four decades has remained a global leader in the field of fertility services, providing care to couples and individuals who are struggling to conceive naturally. We are one of the largest providers of Assisted Reproductive Services (ARS) in Australia and Malaysia and we are proud to live by our vision of 'excellence in science and care delivering world class fertility solutions'.

Monash IVF Group offers patients the full range of assisted reproductive services. The vast majority of these services relate to stimulated in-vitro fertilisation (IVF) cycles leading in turn to frozen embryo transfers (FETs) underpinned by our class-leading cryopreservation technology.

The Group delivered a strong financial and operational performance in financial year 2014 (FY14). Over 14,280 patient treatments delivered during the year generated total revenues of \$114M an increase of 18% on FY13. This was underpinned by our leading pregnancy success rates, recorded at 32% in FY14 versus an industry average of 25%. Continued growth in FETs as a result of improved embryo development and vitrification techniques has allowed us to continue to improve the Group's pregnancy success rates.

In FY14 we consolidated our financial foundations through a comprehensive refinancing exercise to establish a more efficient capital structure in preparation for our ASX listing in June. As we migrated subsidiary services to a Group structure we continued to deliver services and care with a commitment to quality and clinical outcomes. This remains integral to and is the core focus of our business.



14,287

PATIENT TREATMENTS
PERFORMED

As a leading provider of ARS in Australia and Malaysia, we are focusing on four areas for business growth:

1. Organic growth through outstanding outcomes:

The Group focused on enhancing marketing activities in FY14 to increase our exposure in existing markets. An intensified focus on digital marketing and increased promotion of our scientific and clinical excellence and success rates to the referral community resulted in increased new patient enquiries and in turn new patient registration numbers.

Monash IVF Group's focus on organic growth is underpinned by our embryo development and freezing techniques, which we believe are industry leading. Best practice vitrification (ultra rapid freezing) and blastocyst development (growing embryos to day five before implantation) offer patients greater probability of a successful pregnancy. The growth in demand for our services was evidenced by FET numbers increasing by in excess of 20% in FY14.

The Group's continued outstanding pregnancy success rates allow us to attract Fertility Specialists to our network of clinics. Fertility specialist numbers increased by 11 in FY14 with many of

these specialists having advanced training in infertility or working towards attaining the sub-specialty Royal Australian and New Zealand College of Obstetrician and Gynaecologists (RANZCOG) qualification of Certification in Reproductive Endocrinology and Infertility (CREI). By recruiting and continuing to grow our Specialist numbers with suitably trained practitioners, Monash IVF Group has the ability to increase accessibility and flexibility in the provision of services to the community.

In addition to strong organic growth, FY14 saw the inaugural opening of lower intervention services across the Monash IVF Group network. In February our low intervention "MyIVF" clinic opened in Queensland, located at North Lakes Brisbane, allowing us to tap into a new segment of the ARS market. The Group plans to open an additional lower intervention clinic in the first half of FY15. We will continue to invest in these clinics which are designed to attract individuals who are not currently using our full service clinics due to financial constraints. Our low intervention clinics will operate in unison with our full service offering and provide local communities with a broader range of service options.

MONASH IVF GROUP IS ONE OF THE LARGEST PROVIDERS OF ASSISTED REPRODUCTIVE SERVICES (ARS) IN AUSTRALIA AND MALAYSIA.





WE AIM TO DEVELOP
AFFORDABLE FERTILITY
SOLUTIONS FOR A
WIDER POPULATION
GROUP IN AUSTRALIA.

2. Investment in science and technology

Scientific research and development is part of Monash IVF Group's heritage and a fundamental part of our business growth strategy. Pre-implantation genetic screening (PGS) and diagnosis (PGD) offerings within our clinic network provide patients with an additional diagnostic overlay assisting them in treatment decision making. This advanced technology improves pregnancy outcomes in our target market in conjunction with our core IVF services. Due to an improved diagnostic service offering, PGS and PGD volumes have grown by more than 40% in FY14. We will continue to fund research and development in this exciting field.

3. Geographic footprint within Australia

Expansion of the Monash IVF Group network across Australia occurred in FY14. This coupled with operational efficiencies through increased scale and range of service offerings boosted growth in both revenue and earnings.

The acquisition of Reproductive Medicine Albury (RMA) in the heritage-rich Riverina district of south western New South Wales (NSW) marked our entry into the most populous state in the country. Synergies with the talented team in Albury have already proven to be beneficial for the Group. In addition to RMA, we expanded our presence in NSW with the acquisition of the Next Generation Fertility clinic in the western growth corridor of Sydney providing the Group with a Sydney presence. Further growth is anticipated in NSW in FY15 through broadening the range of services on offer and building a wider referral network.

PRIOR YEAR
REVENUE WAS
IMPROVED UPON BY
18%

4. Geographic footprint Internationally

Gaining 100% ownership of our Malaysian clinic, KL Fertility Centre, delivered significant upside in FY14. It gives Monash IVF Group a beachhead into the high growth broader Asia region. The KL Fertility business made its first full year contribution under the Monash IVF Group umbrella with Patient Treatment volumes up over 150% on prior year. The Group will continue to grow the Malaysian business organically and will explore further acquisition opportunities internationally that meet our strict investment criteria.

Today, Monash IVF Group is favourably positioned to capture the growth opportunities in Australia and internationally resulting from competitive advantages that come from operating a large multifaceted fertility business. We will continue to leverage these competitive advantages in Australia and Asia in FY15 and beyond. Importantly, the long term social and demographic trends that underpin the demand for the services we provide will sustain our medium to long term growth trajectory.

Looking ahead to FY15, Monash IVF Group is excited to continue to deliver leading fertility services to even more patients and to continue to deliver strong returns to our shareholders as a publicly listed company. We will invest in developing more affordable fertility options in the Australian market that will enable us to deliver fertility solutions for a wider group of the population. We will also, as ever, continue to invest in our world leading research capabilities to improve outcomes and support the Monash IVF Group best-practice model which has proven so successful in the past.

On behalf of everyone at Monash IVF Group, I would like to express our thanks and gratitude to the company's Board of Directors, both past and present. They provide the guidance and insight that enable the company to pursue our strategy for growth and sustain our leadership in scientific excellence.

Finally, my thanks to the staff and doctors of Monash IVF Group for all your hard work and dedication in 2014. We have more than 500 committed individuals across the fields of reproductive medicine, nursing, scientific, ultrasound, research, counselling, marketing, administration, human resources, finance, and information technology. We could not have achieved



our goals without their unwavering energy and dedication to our patients.

We look forward to keeping you updated on the life changing work that we do in the year ahead.

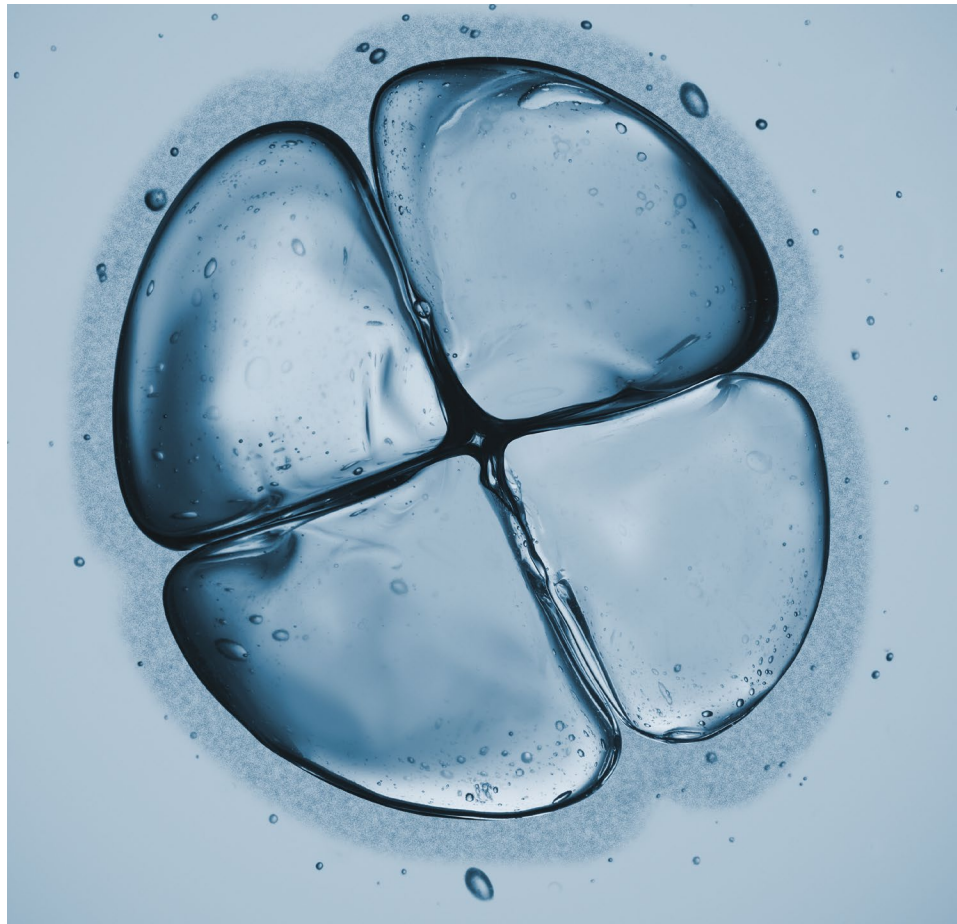
James Thiedeman
Managing Director and
Chief Executive Officer
Monash IVF Group

MONASH IVF GROUP SCIENCE AND RESEARCH

Monash IVF Group is committed to scientific and clinical innovation in order to provide our patients with leading pregnancy outcomes. Monash IVF Group is proud of its strong clinical research history and its affiliations with tertiary education and research facilities both in Australia and internationally. The synergistic link between our doctor, scientist and research teams result in outcomes that underpin our

philosophy of 'excellence in science and care.' The following reports from Dr Michelle Lane, Chief Scientific Officer and Professor Rob McLachlan, Chairman of the Monash IVF Research and Education Foundation who lead our talented teams, demonstrate this commitment to our philosophy.

OUR PREGNANCY
RATES REMAIN
AMONGST THE BEST
INTERNATIONALLY.



MONASH IVF GROUP CHIEF SCIENTIFIC OFFICER REPORT

Dr Michelle Lane

Monash IVF Group Chief Scientific Officer

Monash IVF Group continues to be a leader in scientific direction and development, a philosophy which supports our daily activities in providing the highest quality evidence based care for all patients.

Our scientists publish peer reviewed articles in the highest tier reproductive journals and lead the world in developing new technologies for the treatment of patients. In the last 12 months, several of our scientists have presented our findings at international and national conferences and won awards.

Our pregnancy rates remain amongst the best internationally, driven by our strong commitment to evidence based scientific protocols, underpinned by our extended culture (morula/blastocyst) and vitrification protocols, which give the best chance of pregnancy. Our preimplantation genetic screening (PGS) program continues to go from strength to strength. Since the introduction of the array based technology in 2012, this program has continued to expand gaining popularity with patients, particular those women aged over 40 years as it generates substantial improvements in pregnancy outcomes, compared to standard IVF treatments. We are continuing our development in this area and in 2014 at the Asia Pacific Initiative on Reproduction in Brisbane we delivered a detailed report on next

generation sequencing for PGS, and announced our first pregnancies achieved with this improved technology platform. We are continuing our development of this platform which will enable more reliable and expanded testing for our PGS/PGD programs in FY15.

Our research in determining the metabolic fingerprint of an embryo as a new non-invasive method for choosing the best embryo for transfer remains at the forefront of international interest. Our introduction of this technology on a small scale has resulted in a significant improvement in pregnancy rates and we were invited to present this work at the British Fertility Society meeting in January 2014. This remains a strong focus of our research and development program and will be amongst the new technologies that we trial in multiple sites in the next 12 months.

Through our strong association with the University of Adelaide, our scientists hold NHMRC funding to continue development of novel methods for the improved culture media for the development of human embryos. This joint endeavour has continued to be successful with the development of joint intellectual property.

Together in this partnership our scientists continue to train the next generation of scientists, providing a unique partnership between academia and industry with specialised embryology training, ensuring a pipeline of embryologists for Monash IVF Group.



Michelle Lane
Monash IVF Group
Chief Scientific Officer



MONASH IVF RESEARCH AND EDUCATION FOUNDATION REPORT

Prof Rob McLachlan

**Chairman Monash IVF Research
and Education Foundation**

Academic and scientific excellence is critical to Monash IVF Group's success in the provision of Assisted Reproductive Services (ARS) and is the foundation of Monash IVF Group's reputation in the community. Monash IVF Research and Education Foundation (MREF) is committed to research and postgraduate medical education in reproductive medicine. MREF acknowledges the benefits of conducting original research and commissioning dynamic educational programs to maintain its leading position in the field and contributing best practice to improve healthcare in society.

MREF was established in 2010, operating under an Advisory Board of clinical, scientific and educational specialists to advise methods and techniques in which Monash IVF Group could produce internationally recognised research, to provide educational programs for professionals and to raise community awareness and knowledge in reproductive medicine. MREF successfully facilitates basic science and clinical studies in ARS recognising the linkage between these activities and best practice in its clinical programs whilst always being cognisant of its ethical and social responsibilities to improve clinical outcomes, monitor safety and reduce the burden of infertility on couples.

MREF retains the historic and important link between Monash IVF Group and Monash University, an association evidenced by six of the Monash IVF Group Specialists/Scientists holding key academic positions with the university. Recipients of research funding provided by MREF include researchers and clinicians at the Monash University Departments of Obstetrics and Gynaecology, the School of Biological Science, Monash Institute of Medical Research Prince Henry's Institute (MIMR_PHI) and the Murdoch Institute.

In addition to funding provided, MREF is involved in joint educational activities with specialised courses for post graduate medical education for local and overseas clinicians along with Monash University's Education Program in Reproductive Biology (EPRD) renowned reproductive science course. MREF is highly regarded and considered the preferred research institute for domestic and international medical students during their final year of medical student studies with many of the students associated with and supported by MREF receiving awards in clinical papers and research contributions. Our FY14 education program also saw the continuation of the EPRD and MREF hosting of several overseas clinicians and scientists for short course updates in ARS.



15

JOURNAL
ARTICLES

FY14 has been an outstandingly successful year for MREF. Nine Clinicians and Scientists supported by MREF presented at international conferences and meetings including:

- + Three Monash IVF Group Specialists presented at the 29th Annual Meeting of the European Society of Human Reproduction and Embryology in London in July 2013 and
- + Four Monash IVF Group Specialists presented at the 69th Annual Meeting of the American Society for Reproductive Medicine in conjunction with International Federation of Fertility Societies in Boston in October 2013. Monash IVF Group's A/Prof Rombaubs was invited to give a plenary lecture at this meeting.

I am proud to also report I was invited to be the International Plenary and received the Hoffenberg International Medal awarded by the Society for Endocrinology in Manchester in March this year. MREF was also well represented at national meetings in FY14 with 12 MREF representatives presenting at conferences and meetings including:

- + Six Monash IVF Group Clinicians/Scientists presented at the 32nd Annual Meeting of the Fertility Society of Australia in Sydney in September 2013;

6

CHAPTER
PUBLICATIONS
IN TEXTBOOKS

- + Three Monash IVF Group Clinicians/Scientists presented at the Annual Scientific Meeting of the Endocrine Society of Australian and the Society for Reproductive Biology in Sydney in August 2013; and
- + Embryologist, Ilona Rosa was awarded Best Clinical Paper for 'Is Fresh Best?' at the 5th Congress of the Asia Pacific Initiative on Reproduction in Brisbane in April 2014.

In addition to national and international meetings, MREF prides itself on quality research and innovative technology which is communicated to the industry through publications and poster presentations at national conferences and meetings. MREF was proudly involved in more than 15 journal articles, six chapter publications in textbooks and had nine poster presentations at both national and international meetings in FY14. Our Specialists are held in high regard and have presence at all major ARS conferences internationally.

9

POSTER
PRESENTATIONS
AT BOTH NATIONAL
AND INTERNATIONAL
MEETINGS.

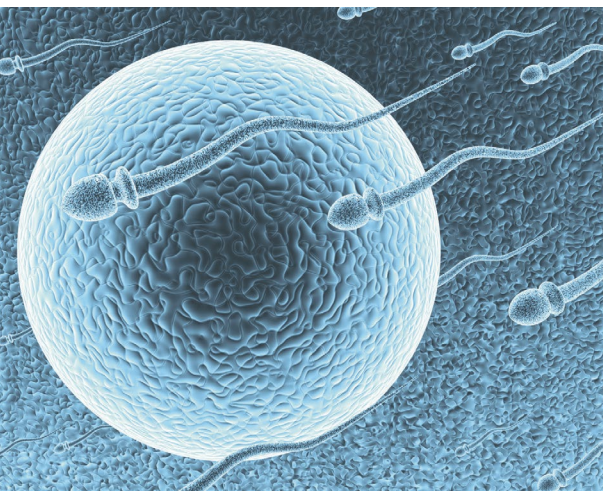
Being an industry leader in research and innovation has attracted additional funding and opportunities for our extended team including seven National Health and Medical Research Council grants awarded to members of the MREF executive team.

MREF IS COMMITTED
TO SPECIALISED
RESEARCH AND
POSTGRADUATE
MEDICAL EDUCATION
IN REPRODUCTIVE
MEDICINE



9

CLINICIANS AND SCIENTISTS, SUPPORTED BY MREF, PRESENTED AT INTERNATIONAL CONFERENCES.



MREF provides seed funding for a wide variety of research projects that aim to make the diagnosis and management of male and female infertility more effective and safe. All studies are performed under the supervision of the applicable Human and Research Ethics Committee(s) and the requirements of the National Health and Medical Research Council (NHMRC). Following are some current examples of research putting MREF in a position as market leader in scientific innovation:

- + Failure of embryo implantation is a major cause of ARS failure. To improve patient outcomes a better understanding of the ‘cross talk’ between the embryo and uterine lining (endometrium) is critical. Over several years, a highly successful partnership has been developed with Prof Lois Salamonsen and two other research groups at MIMR-PHI Institute, each focussed on different aspects of embryo implantation.
 - + An exciting new development has been the awarding of an NHMRC licence to carry out research on excess frozen embryos kindly donated by our patients. This project will study factors produced by the embryo that determine if it will implant successfully. Such research will identify potential therapies to achieve higher implantation success for patients.
 - + MREF supported the participation of Monash IVF Group in a study run through the Murdoch Children’s Research Institute in to the health and development of 547 young adults conceived by assisted reproduction prior to 1992. ARS offspring have grown into healthy young adults with a quality of life and educational achievement comparable to those of non-ARS conceived peers.
- The study was published in the prestigious international journal, *Fertility and Sterility*.
- + Male infertility affects 1 in 20 Australian men and contributes to about half of all ARS treatments. Many cases are thought to be genetic but diagnostic testing is unavailable. In collaboration with Prof Moira O’Byrne of Monash University, screening of human DNA samples for mutations in several genes potentially responsible for infertility has been undertaken. This research partnership is internationally recognised for its contributions to andrology research and clinical practice.
 - + New treatments are being explored in randomised clinical trials in conjunction with industry partners, such as oxytocin antagonist to reduced uterine contraction and growth hormone to promote healthy egg development.
 - + *Chlamydia* infection is often asymptomatic and leads to scarring and blockage of the fallopian tubes. In conjunction with the Queensland University of Technology, this study is progressing toward a new blood test to diagnose tubal infertility without the need for invasive surgery.

MREF has overseen psychosocial research which aims to improve patient counselling and alleviate the inevitable stress of infertility. This research includes the experiences of the couples commissioning a surrogate, and that of the surrogate and her partner, which were examined throughout the surrogacy process.

Other research reviewed includes the psychosocial impact of a prenatal diagnosis of fetal abnormality and the social and professional supports needed by women at this time and in the longer term.

Monash IVF Group remains committed and focused through MREF on training the next generation of clinical and scientific staff in the assisted reproduction sphere. As a group we will continue to strive for excellence in the field of research and ARS innovation with a focus on evidenced based practices to ensure we provide optimal clinical services and improved outcomes for our patients.



Prof Rob McLachlan

Chairman Monash IVF
Research and Education
Foundation



MONASH IVF GROUP REMAINS FOCUSED
ON TRAINING THE NEXT GENERATION
OF CLINICAL AND SCIENTIFIC STAFF.

CORPORATE GOVERNANCE STATEMENT

Monash IVF Group is a leader in the field of fertility services. Since the 1970's the Group has developed into one of the largest providers of ARS offering a complete range of fertility treatments in Australia and overseas.

Below is the Monash IVF Group's Corporate Governance statement incorporating principles and recommendations as suggested by the ASX as at the date of this report for the period ending 30 June 2014. All statements have been reviewed and approved by the Monash IVF Group Board.

1 The Board of Directors

Monash IVF Group's Board is responsible for the overall corporate governance of the company. The Board is committed to maximising performance through continued investment in research and education and continued innovation in clinical services to improve outcomes for our patients. Improved success rates driven by clinical excellence and a commitment to scientific improvement will underpin strong shareholder value and financial return. The Board is focused on sustaining the growth and success of Monash IVF Group and commit to ensuring that the transparency to shareholders of policies and practices in relation to corporate governance provide appropriate levels of disclosure and compliance.

The Monash IVF Group Board is committed to representing the Company and being accountable to shareholders for the overall strategy, governance and performance of the Group.

As at the date of this report, the Monash IVF Group Board consists of:

Director	Position	Independent	Date of commencement
Mr Richard Davis	Independent Chairman	Yes	4-Jun-14
Mr Josef Czyzewski	Independent non-executive Director	Yes	4-Jun-14
Ms Christina (Christy) Boyce	Independent non-executive Director	Yes	4-Jun-14
Mr Neil Broekhuizen	Non-executive Director	No – indirect interest due to Ironbridge's previous controlling and continuing interest in 5% of the share capital of Monash IVF Group	4-Jun-14
Mr Benjamin (James) Thiedeman	CEO and Managing Director	No – Chief Executive Officer	30-Apr-14
Dr Richard Henshaw	Executive Director	No – Fertility Specialist with Monash IVF Group	30-Apr-14

2 Roles and responsibilities of Board

The roles and responsibilities of the Monash IVF Group Board are detailed in the Board Charter and Constitution which are available at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

Monash IVF Group Board is responsible for the stewardship of the Company, in particular, for the long-term growth and profitability of the company. The Board's responsibilities particularly include the setting and monitoring of implementation and resultant outcomes of strategies, policies and financial objectives of the Company.

In summary, the Board's roles and responsibilities include:

- **Strategy** – development, approval, monitoring and review of business strategies and budgets;
- **Risk management and reporting** – identifying key risks to the business and ensuring an adequate risk matrix exists and is effective in managing risk. Oversee reporting and disclosure to shareholders on matters regarding risk;
- **Relationship with management** – appointment and removal of key executives, remuneration processes, succession planning and setting authority levels for management;

CORPORATE GOVERNANCE STATEMENT (cont.)

- **Monitoring of performance** – assess and evaluate senior executive, Board members and overall Board and subcommittee performance. Setting annual Board objectives goals and review of charters of the Board and subcommittees; and
- **Corporate governance** – appointing Board Chair, ensuring ethical behaviour and compliance of Board and staff to governing documents and standards and any other such functions as prescribed by law and listing requirements.

3 Board independence

The six members of the Monash IVF Group Board are listed above.

The Board does not consider that Mr Richard Davis, Mr Josef Czyzewski or Ms Christy Boyce have, or have had, any relationships or associations that could hinder in any way their ability to exercise unfettered and independent judgement in the discharge of their Board responsibilities and accordingly are considered independent.

Mr James Thiedeman and Dr Richard Henshaw are current employees of Monash IVF Group and therefore are not Independent Board members. However, the Board is satisfied that both individuals make significantly valuable contributions to the Board and remain able to provide non-judgmental input with the best interests of the Group as a focus.

Mr Neil Broekhuizen is not considered an independent Director as he holds the position of Joint Chief Executive Officer of Ironbridge Capital who managed a controlling interest in Monash IVF Group prior to listing.

Monash IVF Group acknowledges non-compliance with ASX listing recommendation 2.4. The Board acknowledges fifty percent of the Board is considered non-independent however, the Board has considered the Company's position and is satisfied that independently and collectively, the composition of the Board reflects an appropriate range of independence, skills and experience for the company. All members exercise independent judgment in making decisions in the best interest of Monash IVF Group.

4 Board Chair is an independent Director

Mr Richard Davis joined Monash IVF Group in June 2014 and is a non-executive Independent Director and Chair of the Board. In his role as Chair he provides leadership to the Board and advice and support to the CEO. He is responsible for facilitating Board discussion and oversees all processes and procedures that are in place to evaluate the performance of the Board, its committees and individual directors.

The Board considers that Mr Davis is fully independent and is able to execute and fulfil his obligations and responsibilities with Monash IVF Group Board.

5 Appointing or re-electing individuals as Directors

Monash IVF Group having only recently listed has a newly created Board as of June 2014.

The Healthbridge Enterprises Pty Ltd Board engaged the services of a third party recruitment firm to source Monash IVF Group Board members. Non-executive Directors were invited to apply and were chosen by the pre-IPO Shareholders after careful consideration and review of background checks. Individuals were interviewed and reviewed by major shareholders and information with regard to the following was assessed:

- Biographical details
- Qualifications and interests
- Experience and skills
- Details of other directorships previously held
- Police and Bankruptcy checks

In accordance with the Constitution of the Company, Monash IVF Group Directors are tenured for three years at which time they are entitled to reapply to continue service with the Board. In the future, any appointments or re-elections will involve assessing current skills and experience held by Board Directors and sourcing future candidates with advantageous skills and experience to complement the Board. Board succession planning and renewal will occur as outlined in the Remuneration and Nomination Committee Charter listed on the Company website <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

CORPORATE GOVERNANCE STATEMENT (cont.)

6 Director Agreements

Upon completion of background and reference checks, Board candidates were required to confirm their ability to commit to being able to fulfill their responsibilities as Directors. Each Director candidate then received an Appointment Letter confirming a position on the Board, outlining the terms of their appointment, roles and responsibilities, company expectations and detailed remuneration information including superannuation entitlements.

7 Induction process and professional development opportunities for Directors

Monash IVF Group has had a comprehensive induction process for Directors. This induction included meetings with senior management and staff to gain an understanding of the core business as well as visits to laboratories and clinics to enhance their understanding of the business. In the lead up to listing on the ASX the independent Board members were provided with background industry papers, previous financial and business results and information on its strategic initiatives.

8 Structure of the Board to add value

The composition of the Board is driven by the following principles outlined in the Board Charter:

- Board size must be no more than 10 and no less than three members
- Majority of people who are independent Directors
- People with a mix of skills and diversity of backgrounds
- Chairperson of the Board should be independent

Monash IVF Group believes a Board of six members allows its members to carry out its responsibilities, without unnecessarily degrading its effectiveness with excessive numbers that can inhibit individual engagement and involvement of Board members.

9 Company Board Matrix outlining skills and diversity amongst Board

Prior to appointment of members to the Monash IVF Group Board, applicants skills and experience were reviewed to ensure an appropriate and diverse mix of backgrounds, expertise, experience and qualifications were gained to assist with being able to understand and effectively advise on Group strategy and growth.

Monash IVF Group Board matrix:

	Leadership	Experience setting strategy	Business Growth	Experience with Acquisitions	Accounting/ Finance skills	Industry experience
Richard Davis	•	•	•	•	•	
Josef Czyzewski	•	•	•	•	•	•
Christy Boyce	•	•	•	•	•	•
Neil Broekhuizen	•	•	•	•	•	•
James Thiedeman	•	•	•	•	•	•
Richard Henshaw	•	•	•	•		•

10 Board performance review and evaluation

Monash IVF Group Board member performance will be reviewed formally on an annual basis so that individual directors and the Board and subcommittees are continuously working effectively and efficiently to fulfil their roles as per the Board Charter.

Due to the recent listing on the ASX and Board member appointments having only occurred in June 2014, no formal reviews have been conducted as yet. Monash IVF Group however will continuously monitor the performance of the Board, Board Directors and the committees of the Board to ensure conduct is in line with best practice. Performance will be reviewed against the Board Charter and Constitution to ensure all individuals and committees are fulfilling their roles appropriately.

CORPORATE GOVERNANCE STATEMENT (cont.)

11 Executive and Non-executive Director remuneration policy and practices

Under the guidance of the Remuneration and Nomination Committee and the Remuneration Policy the Monash IVF Group Board has established a framework for remuneration that is designed to ensure consistent and reasonable remuneration policies and practices are observed which enable the attraction and retention of directors and management and fairly rewards Directors and senior management for positive performance.

Monash IVF Group's remuneration practices for executive appointments are expanded on in the Remuneration Report.

Monash IVF Group remuneration policy can be found on the Group website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

12 Board matters delegated to Management

Monash IVF Group Board has delegated the responsibility of day to day operational and financial management of the Company to the CEO, Mr James Thiedeman. These responsibilities are inclusive of expected timely and clear communication with the Board to ensure they are able to perform their role. CEO role and delegation of responsibility to senior executives is documented in the Monash IVF Group Charter which outlines the CEO as responsible for implementation of strategy and policies as set by the Board.

The role of management is to support the CEO and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board. The delegated authority includes responsibility for:

- developing business plans, budgets and strategies for the Company for consideration by the Board and, to the extent approved by the Board, implementing these plans, budgets and strategies;
- operating the Company's business within the parameters set by the Board from time to time and keeping the Board informed of material developments in the Company's business;
- proposed transactions, commitments or arrangements that exceed the parameters set by the Board, referring such matters to the Board for its consideration and approval;
- identifying and managing operational and other risks and, where those risks could have a material impact on the Company's businesses, formulating strategies for managing these risks for consideration by the Board;
- implementing the policies, processes and codes of conduct approved by the Board; and
- managing the Company's current financial and other reporting mechanisms and control and monitoring systems to ensure that these mechanisms and systems function effectively and capture all relevant material information on a timely basis.

The Board Charter in full can be accessed at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

13 Senior Executive performance review

Monash IVF Group has an annual Performance Review Policy for all senior executives and managers as stated in the Board Charter. Senior executive and manager performance is reviewed by the CEO against KPIs which are both financial and non-financial in nature. The Remuneration and Nomination Committee have been delegated the role of overseeing this process including developing and implementing a plan for identifying, assessing and enhancing competencies of senior executives. Further information with regard to senior executive remuneration can be found in the Remuneration Report.

A performance evaluation for all senior executives, including the CEO, was undertaken in the FY14 reporting period.

14 Company Secretary accountabilities

Monash IVF Group appointed Rodney Fox (Chief Financial Officer), to the position of Company Secretary in June 2014. Mr Fox was appointed as Healthbridge Enterprise Pty Ltd CFO in July 2011.

In the role of Company Secretary, Mr Fox is accountable to and reports directly to the Board through the Chairman. All Directors have access to him in his role as Company Secretary. In his role he reports to the Board on all matters to do with the proper functioning of the Board and Board Committees.

Mr Fox was appointed to the role as a result of his thorough knowledge of the company and its operations, the Constitution, reporting obligations and the laws which regulate the company's operations.

CORPORATE GOVERNANCE STATEMENT (cont.)

15 Board and Committee meetings

Monash IVF Group Board was established in June 2014 with the new member structure under the Chair of Mr Richard Davis. As the ultimate responsibility for governance rests with the full Board, the Board chose to attend all meetings leading up to listing which incorporated agenda items to be later segregated under the Audit and Risk Committee and the Remuneration and Nomination Committee.

The process of full attendance at meetings allowed better engagement and familiarity with issues concerning the listing including corporate governance requirements as listed under both the Audit and Risk Committee and Remuneration and Nomination Committee Charters. It also allowed for a broader depth of experience and opinion from Board members in matters relating to the float and greater governance with regard to future Company structure and processes.

Monash IVF Group Board meetings commenced under the new entity in June 2014 and all six members attended the meetings. Remuneration and Nomination Committee and Audit and Risk Committee members have been designated and meetings of these separate committees commenced in July 2014.

Monash IVF Group Board/Healthbridge Enterprises Pty Limited Board Attendance

	Monash IVF Group Board		Healthbridge Enterprises Board	
	Attended	Held	Attended	Held
Neil Broekhuizen (<i>HEPL Chair</i>)	4	4	10	11
Rodney Fox			11	11
Richard Henshaw	4	4	10	11
Gab Kovacs*			10	11
Anthony Lawrence*			10	11
Benjamin ('James') Thiedeman	4	4	11	11
Tom Woolley*			11	11
Richard Davis (<i>MVF Chair</i>)*	4	4		
Josef Czyzewski*	4	4		
Christy Boyce*	4	4		

* These people did not serve as Board members for the full financial year.

CORPORATE GOVERNANCE STATEMENT (cont.)

SAFEGUARD INTEGRITY IN CORPORATE REPORTING

16 Audit and Risk Management Committee and Charter

The Audit and Risk Management Committee for Monash IVF Group have been delegated responsibility for supervising the process of financial reporting, internal control, continuous disclosure, financial and non-financial risk and external audit. The Committee's role, as outlined in the Audit and Risk Management Committee Charter, is to monitor the Group's compliance with laws and regulations and adherence to the Group Code of Conduct and to promote discussion with regard to risk between Board, management and the external auditor.

Monash IVF Group enlists the services of an external auditor whose independence and performance will be monitored and reviewed by the committee.

Current members of the Committee are:

- Josef Czyzewski (Chair)
- Richard Davis
- Christy Boyce

All members are independent non-executive members of the Board with experience and qualifications in financial management, as specified in the Charter. The Audit and Risk Committee commenced meetings on 1 July 2014 and have had two subsequent meetings on 30 July and 20 August 2014.

Duties and Responsibilities of the committee as outlined in the Charter:

- Oversee Company's financial reporting;
- Review and make recommendations with regard to the Company's risk management policy;
- Report to the Board on all matters relevant to the audit and risk processes;
- Review and assessment of accounting, financial and internal controls;
- Appointment and overview of external auditor and auditor processes;
- Review and assessment of external audit processes;
- Compliance with laws and regulations;
- Review media releases, announcements and patient complaints; and
- Review committee performance.

The Audit and Risk Management Charter can be found at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

17 Audit and Risk Committee management framework reviewed annually

Monash IVF Group Audit and Risk Committee have adopted the Risk management matrix and Risk Assessment Tool used by the Group entities. Both are used to assist in determining the action required in response to an actual or perceived risk based on the corporate and clinical consequences of a risk assessed against the likelihood of an event occurring.

The risk is documented in the Risk Register which is used to document all identified risks, list appropriate preventative actions to mitigate risks, review process of risk reduction and nominate responsible persons who take ownership of the risk strategy process.

The Risk Register is currently reviewed by the Leadership Team internally every six months and will also be reviewed by the Audit and Risk Committee annually.

A separate Workplace Health and Safety register is also maintained and reviewed by the Committee annually.

The company system of reporting allows for formal reporting of risk or adverse events and near misses.

The company framework is compliant with the Audit and Risk Management Committee Charter which can be found at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

CORPORATE GOVERNANCE STATEMENT (cont.)

18 Remuneration and Nomination Committee and Charter

Monash IVF Group Board has a Remuneration and Nomination Committee governed by the Remuneration and Nomination Committee Charter as found on the website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>

The Remuneration and Nomination Committee has three members, all of which are independent Board members:

- Christy Boyce (Chair)
- Richard Davis
- Josef Czyzewski

The purpose of the Committee is to assist the Board, as per the Remuneration and Nomination Committee Charter, by reviewing and making recommendations to the Board in relation to:

- the Company's remuneration policies;
- Board, CEO, senior executive and executive Director succession issues and planning;
- Board appointments and re-election of members and its committees;
- Director induction and continuing professional development programs for Directors;
- Senior executive and Director remuneration packages, equity-based incentive plans and other employee benefit programs;
- Company superannuation arrangements;
- Company recruitment, retention and termination policies;
- Board, Committee, Director and Senior Executive performance evaluation; and
- Board composition and strategies to address Board diversity and the Company's performance in respect of the Company's Diversity Policy, including whether there is any gender or other inappropriate bias in remuneration for Directors, senior executives or other employees.

The Remuneration and Nomination Committee meetings commenced as of 30 July 2014 and will be held quarterly or more frequently as necessary.

The Remuneration and Nomination Committee Charter and Remuneration Policy can be found on the Monash IVF Group website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>

ACT ETHICALLY AND RESPONSIBLY

The Corporate Governance principles below encompass the fundamental values at Monash IVF Group and outline how management authority is exercised and controlled within the Group.

Monash IVF Group believe its corporate governance principles and practices are robust and as a newly listed company, we will endeavour to continue to accomplish outstanding results in an environment that is transparent and honest.

19 Code of Conduct

Monash IVF Group recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal Code of Conduct which outlines Monash IVF Group's policies on various matters including ethical conduct, business and personal conduct, compliance, privacy, security of information, financial integrity and conflicts of interest. This Code clearly states the standard of responsibility and ethical conduct expected of staff, directors and doctors engaged by the company.

The success of the life changing work undertaken by Monash IVF Group is underpinned by vigorous corporate governance principles. The standards we adhere to go beyond mere compliance with laws and regulations but also embrace the Company values which are essential for our success.

The Code of Conduct promotes ethical and responsible decision making by directors, contractors and employees. Monash IVF Group also has a Whistleblower Policy to encourage employees to raise any concerns and report any instances of reportable conduct such as conduct that is unlawful, unethical, dishonest or fraudulent without fear of being personally disadvantaged.

Monash IVF Group Code of Conduct and Whistleblower policies can be found in full on our website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>

CORPORATE GOVERNANCE STATEMENT (cont.)

20 Diversity Policy inclusive of gender diversity objective

Monash IVF Group values and is proud of its strong and diverse workplace and is committed to supporting and further developing this diversity through attracting, recruiting, engaging and retaining varied talent and aligning the Company culture and management systems with this commitment.

Monash IVF Group's Diversity Policy aims to promote a corporate culture which embraces diversity by:

- promoting the principles of merit and fairness when making decisions about recruitment, development, promotion, remuneration and flexible work arrangements;
- having an overall transparent process for the review and appointment of senior management positions and Board members;
- recruiting from a diverse pool of qualified candidates, where appropriate engaging a professional search/recruitment firm, advertising vacancies widely, making efforts to identify prospective Employees who have assorted attributes and ensuring diversity of members on the selection/interview panel when selecting and appointing new Employees (including senior management) and new Board members;
- embedding the importance of diversity within the Company's culture by encouraging and fostering a commitment to diversity by leaders at all levels whilst recognising that diversity is the responsibility of all Employees;
- recognising that Employees may have family responsibilities;
- reinforcing with our people that in order to have a properly functioning and diverse workplace, discrimination, harassment, vilification and victimisation will not be tolerated within the Company; and
- continuing to review and develop policies and procedures to ensure diversity within the organisation, including the adoption of key performance indicators for senior executives to measure the achievement of diversity objectives under the Company's diversity policy.

With regard to gender equality Monash IVF Group reports to and is compliant with the Australian Government Workplace Gender Equality Agency. At 30 June 2014, Monash IVF Group had 441 staff of which 7% were males.

The breakdown of gender is listed in the organisational list below:

Organisational Level	Number of Women	% of Women
CEO and Directors	1	17%
General Management	6	60%
Team Leader	4	57%
Total Staff inc above	441	93%

Monash IVF Group also has in place a Flexible Work Arrangements policy to promote work/life balance and to accommodate family care in line with operational requirements of the business.

The Workplace Diversity Policy is overseen by the Remuneration and Nomination Committee. The Committee has no executive powers with regard to its findings and recommendations however is responsible for monitoring, reviewing and reporting to the Board on the Company's performance in respect of gender diversity in accordance with the Company's Diversity Policy.

The Diversity Policy for Monash IVF Group is disclosed on the company website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

CORPORATE GOVERNANCE STATEMENT (cont.)

21 Continuous Disclosure Policy

Monash IVF Group is committed to effective communication with its patients, shareholders, market participants, employees, doctors, suppliers, financiers, creditors, government, regulators other stakeholders and the wider community. The Company will ensure that all stakeholders, market participants and the wider community are informed of its activities and performance in line with its Continuous Disclosure Policy. This policy complies with the continuous disclosure obligations under the Corporations Act (2001) and the ASX Listing Rules and as much as possible seeks to achieve and exceed best practice to promote investor confidence in Monash IVF Group.

More specifically, the policy outlines Monash IVF Group's:

- obligations under the Corporations Act (2001) and the ASX listing rules;
- provision to shareholders and the market with timely, balanced, direct and with equal access to information issued by the Company; and
- promotes investor confidence in the integrity of the Company and its securities and ensures open and honest communication with shareholders.

The Monash IVF Group Continuous Disclosure Policy can be found in full on the website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>

22 Company information and governance policies via website

Consistent with the Monash IVF Group's Communication Policy the company's website is considered to be the primary means for information provision to all stakeholders. It has been designed to enable information to be clear and readily accessible and includes:

- Company information including Board members;
- Corporate governance documents including Company codes, policies and charters;
- all announcements and releases to the ASX;
- copies of presentations to shareholders, institutional investors, brokers and analysts where possible;
- any media or other releases;
- all notices of meetings and explanatory materials;
- a copy of the Company's Prospectus and we will list the Annual Reports as well as previous annual, and half yearly; and
- any other relevant information concerning non-confidential activities of the Company including business developments.

The company website can be found at www.monashivfgroup.com.au. The Communication Policy can be located at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

23 Investor Relations Program

Monash IVF Group Board endeavours to ensure shareholders are provided with adequate information to review the performance of the group and that they are informed of all major developments affecting the Group. This is in line with the Group's Continuous Disclosure Policy and Communications Policy. In addition to this, in the interests of shareholder engagement, the company representatives of Mr James Thiedeman, Dr Richard Henshaw and Mr Rodney Fox respond promptly and directly to any queries or feedback from shareholders or the general public seeking information.

The Communication Policy and the Continuous Disclosure Policy at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

24 Security Holder participation policy

Monash IVF Group recognises the importance of shareholder engagement and welcomes participation of shareholders at the Annual General Meeting (AGM). Due notice will be provided to shareholders encouraging attendance at the AGM in October. The opportunity will also be available to participate in meetings via electronic communications and we will provide direct voting facilities to allow shareholders to vote ahead of the meeting without having to attend or appoint a proxy.

CORPORATE GOVERNANCE STATEMENT (cont.)

25 Security Holder electronic communication capability

The Company recognises that electronic communication is often a more efficient and preferred form of communication. Monash IVF Group's Communications Policy addresses this and accordingly shareholders will be given the option to communicate with the Company Share Registry electronically.

The Company's email system allows staff and stakeholders to communicate with ease with management and staff of the Company. Doctors, employees and other stakeholders have access to this system and are encouraged to use it to improve the flow of information and communication generally.

The Monash IVF Group Communications Policy can be located at website <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>

26 Securities Trading Policy

Monash IVF Group has a Securities Trading Policy to comply with their obligations under the insider trading prohibitions of the *Corporations Act 2001* (Cth). To protect the reputation of the Company, its Directors, doctors and employees (whether engaged directly or through a contractor) this policy regulates trading of the Company securities or securities of other companies.

Directors and all doctors and employees must comply with the insider trading prohibitions of the Corporations Act. Any person who possesses inside information in relation to a company must not trade in securities of that Company, regardless of the terms of this Policy or any written clearance given under this Policy in respect of Company Securities.

The Monash IVF Group Securities Trading Policy can be found in full on the Group website at <http://ir.monashivfgroup.com.au/Investor-Centre/?page=Corporate-Governance>.

27 Financial Year reporting statements are declared accurate by CEO and CFO

Monash IVF Group CEO, Mr James Thiedeman, and CFO, Mr Rodney Fox, have reviewed and verified that the reporting statements as listed in this annual report are true and accurate. A declaration to that effect has been signed by both to declare that the financial records have been entered and maintained in accordance with the Corporations Act (2001) accounting standards and the records give a fair and true view of the financial position and performance of Monash IVF Group.

28 Company Internal Audit Function or processes to improve risk management and internal control processes

Monash IVF Group does not have an Internal Audit function. Monash IVF Group is currently reviewing its requirement and provisioning of an internal audit function to supplement the external audit. The Group has internal controls implemented such as segregation of duties, delegation processes and structured approval process in place to mitigate risk.

29 External Auditor attends AGM

Monash IVF Group has retained the services of KPMG as external auditor for the annual independent review of results. KPMG will attend the AGM on 28 October 2014 to provide shareholders with information and feedback.

CORPORATE GOVERNANCE STATEMENT (cont.)

30 Economic, environmental and social governance

Monash IVF Group primarily provides ARS in Australia and Malaysia. The Group has always been committed to conducting its services in an open and transparent environment and in a manner that is honest and ethical. The Group recognises the significant contribution it makes to fertility services in the medical realm and along with that sincerely adopts a philosophy of clinical excellence in an environment of safe and supportive service provision.

As at 30 June 2014, Monash IVF Group had 18 fertility clinics, two specialised diagnostic laboratories, one day hospital and one central administration office and considers its impact environmentally to be minimal. Monash IVF Group is an organisation that is not involved in manufacturing or resource extraction and hence it considers its environmental footprint to be small.

The main Group administration centre is a business hours hub with energy usage in office use only. With the view to a more efficient technology infrastructure the Group is currently consolidating data centres with the aim to have four merged to a single tier one data centre by end of the 2016 financial year.

Our Australian sites are accredited and operate under the guidance of the Fertility Society of Australia Reproductive Technology Accreditation Committee with regard to relevant regulations and legislation. This incorporates components covering ethics and safety in practice and management of adverse events. Our Malaysian site whilst not requiring approval operates to the same standards.

The Monash IVF Group Workplace Health and Safety Policy also covers policies on general safety in the work environment and management and disposal of chemicals to ensure all are being utilised and disposed of under best practice guidelines to reduce environmental impact.

Our business operates in accordance with Workplace Health and Safety laws and is committed to training and encouraging staff and Doctors to be vigilant with regard to safety for themselves and our patients.

Economic risk is potentially material to Monash IVF Group. ARS in Australia are funded to a significant extent by the Australian Federal Government and any change to the funding arrangements could lead to a reduced demand for our services affecting financial performance and sustainability of the company.

Monash IVF Group employs more than 400 staff who, in conjunction with our team of dedicated specialists, deliver exceptional evidenced based care to our patients. Our team of scientists and nurses are supported to develop their own career path supported by Monash IVF Group through education and research sponsorship and professional development funding. We support these education initiatives to promote a diverse group of professionals and to support our staff in achieving their goals.

Monash IVF Group supports its employees to actively engage in community events and as a group we take pride in sponsoring local causes and individuals who are striving to achieve personal goals. As a listed company we look forward to expanding these community engagement initiatives and as we expand geographically we will look to support wider causes in the future.

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DIRECTORS' REPORT

The Directors of Monash IVF Group Limited (the Company) present the financial report of the Company and its controlled entities (collectively 'the Group' or 'Monash IVF Group') for the financial year ended 30 June 2014 and the auditor's report thereon.

The Company was incorporated on 30 April 2014. On 26 June 2014, the Company's wholly owned subsidiary, Monash IVF Group Acquisitions Pty Ltd acquired a 100% controlling interest of Healthbridge Enterprises Pty Ltd and its controlled entities (HEPL Group). The acquisition of Healthbridge Enterprises Pty Ltd is a common control transaction (and not a business combination) under Australian Accounting Standards (AASB). Accordingly, this financial report is a continuation of the Healthbridge Enterprises Pty Ltd reporting group. The financial report reflects the financial performance of the Healthbridge Enterprises Pty Ltd consolidated group between 1 July 2012 and 25 June 2014 and the Monash IVF Group Limited consolidated group from 30 April 2014 to 30 June 2014. The Company and its wholly owned subsidiary did not trade in the period 30 April 2014 to 26 June 2014.

DIRECTORS

The names of Directors who held office during the financial year of the Company and the immediately preceding parent entity are as follows:

	Monash IVF Group Limited			Healthbridge Enterprises Pty Ltd ⁽²⁾		
	Director	Appointment date	Resignation date	Director	Appointment date	Resignation date
Mr Richard Davis (<i>MVF Chair</i>)	✓	4/06/14	–	–	–	–
Mr Josef Czyzewski	✓	4/06/14	–	–	–	–
Ms Christy Boyce	✓	4/06/14	–	–	–	–
Mr Neil Broekhuizen (<i>HEPL Chair</i>)	✓	4/06/14	–	✓	22/10/08	26/06/14
Dr Richard Henshaw	✓	30/04/14	–	✓	4/09/08	–
Mr Benjamin ('James') Thiedeman	✓	30/04/14	–	✓	30/10/13	–
Mr Rodney Fox ⁽¹⁾	✓	30/04/14	4/06/14	✓	30/10/13	–
Prof Gab Kovacs AM	–	–	–	✓	30/10/13	26/06/14
Dr Anthony Lawrence	–	–	–	✓	30/10/13	26/06/14
Mr Tom Woolley	–	–	–	✓	8/10/08	26/06/14

(1) Mr Rodney Fox was appointed Company Secretary on 4 June 2014. Information on the Directors and Company Secretary's experience are outlined on pages 38 to 40. Information on the Directors responsibilities is outlined in the Corporate Governance Statement.

(2) Healthbridge Enterprises Pty Ltd remains a wholly owned subsidiary of the Group at 30 June 2014.

PRINCIPLE ACTIVITY

The Group is a leader in the field of human fertility services and is one of the leading providers of Assisted Reproductive Services (ARS) (the most significant component of fertility services) in Australia and Malaysia. ARS encompass a range of techniques used to assist patients experiencing infertility to achieve a clinical pregnancy. In addition, the Group provides ultrasound services to ARS patients and other women.

DIRECTORS' REPORT (cont.)

OPERATING AND FINANCIAL REVIEW

Review of Operations

The Group is proud of the outstanding pregnancy success rates achieved by its patients and continues to improve on this through continued scientific research and focus on delivering the best care to its patients by Doctors and employees. The 2014 financial year has seen the Group continue to grow both organically including the development of a low intervention model and through the acquisition of two ARS clinics in New South Wales – Reproductive Medicine Albury and Next Generation Fertility. This has allowed an increased number of patients to benefit from the leading technology and science that its Doctors and employees deliver.

The Group primarily generates income by providing:

- 1) ARS Treatments – ARS patients largely comprise of women aged 25 to 54 experiencing fertility issues, with the majority between the ages of 35 to 44. The Group provides a broad range of ARS treatments including:
 - a) in-vitro fertilisation cycles ('IVF Cycle');
 - b) intracytoplasmic sperm injections;
 - c) frozen embryo transfers ('FET'); and
 - d) intrauterine insemination and donor insemination.

The Group offers a full-service offering (with the widest range of treatments available) and a lower intervention service offering (with a select range of services offered for a lower total cost). ARS generated 81% of the Group's pro-forma revenue in FY2014.

- 2) Diagnostic and ancillary services – Monash IVF Group conducts in-house specialised diagnostic and genetic testing, including pre-implantation genetic diagnosis ('PGD') and pre-implantation genetic screening ('PGS'). Diagnostic and ancillary services accounted for 14% of the Group's pro-forma revenue in FY2014.
- 3) Ultrasound – the Group's ultrasound business, Monash Ultrasound for Women ('MUFW') is Victoria's largest specialist obstetric and gynaecological ultrasound provider by number of practices, delivering care to patients in Melbourne. MUFW generated 5% of the Group's pro-forma revenue in FY2014 and demand for these services saw the opening of the 6th location for the provision of these services in the first part of the 2014 financial year.

Diagnostic and ancillary services and ultrasound services are provided to the Group's ARS patients as well as other pregnant women.

Commentary on financial result

	Consolidated		Comparative variance	
	2014	2013		
	\$'m	\$'m		\$'m
Revenue	114.0	96.6	up by	17.4
Operating expenditure	(89.5)	(59.9)	up by	29.6
EBITDA ⁽¹⁾	24.5	36.7	down by	12.2
NPAT ⁽²⁾	4.9	(12.7)	up by	17.6
	#	#		#
IVF cycles	8,962	8,319	up by	643
Frozen embryo transfers	5,325	4,263	up by	1,062
Total patient treatments	14,287	12,582	up by	1,705

(1) Earnings before interest, tax, depreciation and amortisation (EBITDA).

(2) Net profit after tax (NPAT).

DIRECTORS' REPORT (cont.)

Commentary on financial result continued

Revenue

Total revenue grew by \$17.4m (18%) during the year. This was primarily due to an increase in core ARS revenue which was underpinned by strong growth in patient treatments and an increase in the price of ARS. The full year impact of the KL Fertility & Gynaecology Centre acquisition and additional revenue from the two acquisitions during the period contributed \$4.4m revenue.

A summary of the key factors affecting the Group's revenue growth in 2014 is outlined below:

- Patient treatments increased by 13.6% contributing additional revenue of approximately \$13.5m driven by strong growth in Victoria. The acquisition of Yoncat Pty Ltd (trading as Reproductive Medicine Albury), Palantrou Pty Ltd (trading as Next Generation Fertility) and the full year impact in FY14 of the January 2013 acquisition of KL Fertility & Gynaecology Centre (KLFGC) contributed \$6.2m of revenue growth (1,166 patient treatments).
- Average revenue per patient treatment increased by 5% as compared to 2013 which reflects price increases across the Group and additional services provided to patients.
- Non Assisted Reproductive Services revenue increased by 43% contributing total revenue of \$20.2m. Revenue for donor work increased by \$1.8m whilst ultrasound services increased by \$1.3m following the opening of a new site and increased volume of non invasive pre natal blood tests (NIPT).

Expenses

Expenses increased by \$29.6m (49.4%) during the year. The increase has been impacted by a number of one-off transactions which are as follows:

- \$12.3m of Initial Public Offering (IPO) related transaction costs;
- \$2.0m of restructuring costs;
- \$1.7m FY13 profit on disposal of asset recorded as an expense (reduction of FY13 expenditure);
- \$0.8m write-off for impairment of loans associated with discontinued businesses.

Total expenditure excluding one-off items grew by \$12.8m (23.1%) during the year. All expense categories reflect an increase arising from the acquisitions in the year and the full year impact of the 2013 KLFGC acquisition. Other increases in expenses arose:

- Total Salary and wages increased by \$2.8m (10.3%). The increase is due to organic growth in revenue with consequential increases in salary and wages as part of normal annual review processes and legislative requirements including superannuation guarantee contributions and award increases.
- Total Clinician fees increased by \$2.5m (16.6%). The increase was predominantly due to the higher volumes of patient treatments and increases in the fees charged to patients.
- Total Variable costs increased by \$3.8m (50.5%). The large increase reflects additional costs associated with the increased volume of donor related assisted reproductive services particularly the cost of donor eggs and the increased volume of diagnostic and ancillary services (relating to provision of non-invasive pre-natal testing). These two areas in particular achieve a lower margin than other revenue streams in the business.
- Total Fixed costs have increased by \$3.7m (35.6%). The increase is primarily due to higher occupancy costs of new locations and new premises from acquisitions and increased marketing expenses. Additionally, incremental costs associated with the public company status were incurred as well as start-up costs for lower intervention service offerings.

Net interest expense

Net interest expense reduced by \$10.9m (31.7%). The reduction is largely due to the change in capital structure whereby certain debt instruments were converted to equity or repaid. In addition, external bank debt was re-negotiated at lower interest rates. This is marginally offset by the write-off of \$3.4m capitalised bank fees relating to the pre IPO loan repaid during the period.

International segment result

The International Segment contributed 899 patient treatments to total Group patient treatments. Patient treatments achieved are in-line with information presented in the Prospectus issued in June 2014. For further analysis of the performance of the Segment, refer to Note 10 of the Financial Report.

Capital management

The Group's financial position has significantly improved as a result of a restructure of certain debt instruments in October 2013 and capital raising as part of the IPO in June 2014. Contributed equity increased from \$49.5m to \$422.6m with a resultant debt to equity ratio of 22.7% as at 30 June 2014. The new capital structure provides the Group with a strong platform to grow the business organically and fund future acquisitions and capital expenditure.

DIRECTORS' REPORT (cont.)

External Financing

At the time of the IPO, a new banking facility of \$100m (drawn to \$96m upon IPO and remaining as at year end) was put in place with a syndicate comprising Commonwealth Bank of Australia, ANZ Banking Group, GE Capital and Siemens. In addition:

- a) a \$5m working capital facility was established with ANZ Banking Group and remains undrawn; and
- b) an uncommitted facility of up to \$20m may be added to the facility for acquisitions and capital expenditure purposes.

Pro-forma EBITDA and Pro-forma NPAT

	2014 Pro-forma	Prospectus forecast	Variance
	\$'m	\$'m	\$'m
Revenue	114.0	112.1	up by 1.9
Pro-forma EBITDA ⁽¹⁾	39.7	38.8	up by 0.9
Pro-forma NPAT ⁽¹⁾	22.6	22.0	up by 0.6

(1) Pro-forma EBITDA and pro-forma NPAT are non-IFRS measures that have not been subject to audit or review. Refer below for a reconciliation of the statutory result to pro-forma result.

Revenue increased by \$1.9m as compared to the Prospectus issued in June 2014 due to higher than expected patient treatments, the revenue impact from the Next Generation Fertility acquisition and improved non-assisted reproductive services revenue. Operating expenditure was \$1.0m higher due to consequential incremental increases in variable costs and clinician fees as a result of higher patient treatments and the impact from the Next Generation Fertility acquisition. The overall impact of the increases in revenue and operating expenditure results in a \$0.9m increase in Pro-forma EBITDA.

Pro-forma adjustment reconciliation

The below table details the pro-forma adjustments made to statutory profit after tax to reflect the operating, capital and ownership structure of the Group post IPO as if it had been in place from 1 July 2013 and to eliminate certain discontinued and non-recurring items. The adjustments reflect those included in the Prospectus issued in June 2014. IPO transaction costs are higher than the Prospectus primarily due to the inability to reclaim GST on some of the IPO related expenditure.

\$ million	Notes	NPAT	EBITDA
FY2014 Statutory profit/(loss) incl. public company costs		4.9	24.5
IPO transaction costs expensed	(1)	12.3	12.3
Pre-IPO restructure costs expensed	(2)	2.1	2.1
Effect of discontinued operations	(3)	0.8	0.8
Net interest expense adjustment	(4)	19.0	–
Tax effect	(5)	(16.5)	–
Total pro-forma adjustments		17.7	15.2
FY2014 Pro-forma profit/(loss)		22.6	39.7

Pro-forma EBITDA and pro-forma NPAT are non-IFRS measures that have not been subject to audit or review.

- (1) IPO transaction costs expensed. Total IPO transaction costs were \$19.2m, of which \$12.3m (\$8.6m net of tax) is expensed in the Statutory result. The remaining \$6.9m (\$4.9m net of tax) is directly attributable to the issue of capital and is offset against equity in the Balance Sheet.
- (2) Pre-IPO restructure costs expensed. An adjustment has been raised to remove one-off advisor fees relating to the restructure of minority interests in subsidiary companies into interests in the pre-IPO holding company (Healthbridge Enterprises Pty Ltd), and refinancing of the existing debt facilities in 2013 which were expensed in FY2014.
- (3) Effect of discontinued operations. An adjustment has been raised to remove the impact of certain discontinued businesses considered non-core, in relation to the hospital and property businesses disposed in FY2013.
- (4) Net interest expense is adjusted to reflect the anticipated net debt and margins applicable to the Group under the terms of the new banking facilities following the IPO, using prevailing base interest rates (BBSY) during FY2014. In addition, an adjustment has been made to remove \$3.4m of one-off costs associated with the write off of unamortised capitalised borrowing costs.
- (5) Tax effect reflects the prima-facie expected income tax rate applicable to the Group (30%) under the new capital structure. The tax impact of the above adjustments has been reflected as part of this adjustment.

DIRECTORS' REPORT (cont.)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

October 2013 restructure

In October 2013, the Group undertook a restructure of subsidiary companies by partly repaying and acquiring redeemable preference shares and promissory notes held by the existing shareholders in exchange for cash and shares in Healthbridge Enterprises Pty Ltd. In addition, minority interest holdings in subsidiaries were acquired in exchange for redeemable preference shares and shares in Healthbridge Enterprises Pty Ltd.

In October 2013, external borrowings of \$103m were repaid and replaced with a \$170m short-term bank debt facility. The net funds were primarily used to repay the above redeemable preference shares and promissory notes.

Initial Public Offering (IPO)

On 26 June 2014, the ultimate holding company of the Group became Monash IVF Group Limited and commenced trading on the Australian Stock Exchange (ASX code: MVF). The listing process raised \$315.9m of equity which was utilised for the following main purposes:

- Net repayment of external bank debt of \$69m (the principal of \$165m of the pre IPO bank debt facility was repaid and \$96m was drawn under an amended facility with a limit of \$100m and a three-year term);
- \$203m payment as part consideration for the acquisition of Healthbridge Enterprises Pty Ltd from existing shareholders; and
- \$31m repayment of mandatory redeemable preference shares and promissory notes and accrued interest issued by Healthbridge Enterprises Pty Ltd.

A fully franked dividend of \$25,223,579 was paid to the previous shareholders immediately prior to the IPO.

Acquisitions

The Company through its subsidiaries has established a track record for expanding its clinic network through acquisitions and new clinic openings. During the year, Yoncat Pty Ltd (Reproductive Medicine Albury) and Palantrou Pty Ltd (Next Generation Fertility) were acquired. The acquisitions have enabled the Group to expand its business into regional Victoria and New South Wales. In addition, a number of non-controlling interests were acquired during the year. Refer to Note 22 of the Financial Report for further information.

Matters subsequent to the end of the financial year

The Directors are not aware of any circumstances that have arisen since 30 June 2014 that have significantly affected or may significantly affect the operations and results of those operations or the state of affairs, of the Group in the financial years subsequent to 30 June 2014.

Environmental regulations

The Group is not subject to any significant environmental regulations under Commonwealth or State legislation.

DIRECTORS' REPORT (cont.)

DIRECTOR MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	Monash IVF Group Limited		Healthbridge Enterprises Pty Ltd	
	Attended	Held	Attended	Held
Richard Davis (<i>MVF Chair</i>)	4	4		
Neil Broekhuizen (<i>HEPL Chair</i>)	4	4	10	11
Christy Boyce	4	4		
Josef Czyzewski	4	4		
Richard Henshaw	4	4	10	11
Benjamin ('James') Thiedeman	4	4	11	11
Rodney Fox			11	11
Gabor Kovacs			10	11
Anthony Lawrence			10	11
Tom Woolley			11	11

DIRECTORS' REPORT (cont.)

BOARD OF DIRECTORS



MR RICHARD DAVIS

Independent Chairman
Member of Audit & Risk Management Committee
Member of Remuneration & Nomination Committee

Mr Richard Davis joined the Group in June 2014 and is currently serving as a non-executive director of InvoCare and Australian Vintage.

Richard worked for InvoCare for 20 years until 2008. For the majority of that time he held the position of CEO and managed the growth of that business through a number of ownership changes and over 20 acquisitions, including offshore in Singapore.

Prior to InvoCare, Richard worked in accounting and finance and as a partner of Bird Cameron.

Richard holds a Bachelor of Economics from the University of Sydney.



MR JOSEF CZYZEWSKI

Independent Non-executive Director
Chair of Audit & Risk Management Committee
Member of Remuneration & Nomination Committee

Mr Josef Czyzewski joined the Group in June 2014 and has over 30 years of experience in senior finance positions and significant experience in the health industry.

Josef has held the positions of CFO at Healthscope Limited, and more recently CFO/General Manager Strategy and Development at Spotless Group Limited following its takeover by private equity interests in 2012.

Josef has held various senior finance positions with BHP Billiton and served as a non-executive chairman of CSG Limited.

He holds a Bachelor of Commerce from the University of Newcastle and is a Graduate Member of the Australian Institute of Company Directors.



MS CHRISTINA ('CHRISTY') BOYCE

Independent Non-executive Director
Chair of Remuneration & Nomination Committee
Member of Audit & Risk Management Committee

Ms Christy Boyce joined the Group in June 2014. Christy is also a director of Port Jackson Partners and a non-executive director of Cryosite Limited.

Christy has over 20 years of management consulting experience in both Australia and the United States and has worked extensively with major corporations on corporate strategy.

Prior to joining Port Jackson Partners, Christy spent 14 years with McKinsey and Company, where she was a partner.

She holds a Bachelor of Economics from the University of Sydney, a Masters of Management from the Kellogg Graduate School of Business (Northwestern University) and is a Graduate Member of the Australian Institute of Company Directors.

DIRECTORS' REPORT (cont.)



MR NEIL BROEKHUIZEN

Non-executive Director

Mr Neil Broekhuizen is the Joint Chief Executive Officer of Ironbridge.

Neil has 20 years of private equity experience with Investcorp and Bridgepoint in Europe and Ironbridge in Australia. Neil has sat on the Ironbridge Investment Committee since inception and also represents the Ironbridge Funds on the Boards of Bravura Solutions and Southern Cross Dental.

Neil is qualified as a Chartered Accountant and holds a BSC (Eng) Honours degree from Imperial College, University of London.



MR BENJAMIN ('JAMES') THIEDEMAN

Chief Executive Officer and Managing Director

Mr James Thiedeman joined the Group in 2009.

James has spent the last 25 years working in healthcare in both the public and private sectors.

Prior to joining the Group, he was the CEO of Noosa Private Hospital on Queensland's Sunshine Coast and has held senior roles with Ramsay Health Care, Affinity Health, Mayne Health and Health Care of Australia.

Before moving to the private health industry, James held senior policy and planning positions in the public sector.

James holds a Bachelor of Business (Health Administration) from the Queensland University of Technology and an MBA from Griffith University and is a Member of the Australian Institute of Company Directors.



DR RICHARD HENSHAW

Executive Director

Dr Richard Henshaw has practised in the field of reproductive medicine in both the United Kingdom and Australia for the past 19 years.

Richard works as a Fertility Specialist for the Group and was previously the National Medical Director of Repromed. He previously worked for Monash IVF in Victoria and as a Medical Director in the CARE Group, one of the leading providers of fertility care services in the United Kingdom.

Richard has served as Chairman of the IVF Medical Directors of Australia and New Zealand, and also on the Reproductive Technology Accreditation Technical Committee, which reviews the regulatory regime in place in Australia and New Zealand.

DIRECTORS' REPORT (cont.)

COMPANY SECRETARY

Mr Rodney Fox was appointed to the role of Group Chief Financial Officer (CFO) in July 2011 and Company Secretary on 4 June 2014. Rodney is a Chartered Accountant and holds an MBA from the Australian Graduate School of Management. Rodney is experienced in the health and aged care sectors including five years as CFO and joint Company Secretary of a large unlisted public company not-for-profit healthcare provider. Rodney also spent time as a senior manager at Deloitte, which included positions in Sydney, London and Thailand.

STRATEGY

The Group seeks to maintain its position as a leader in the field of ARS in Australia and Malaysia. It will do this through a continued commitment to be at the forefront of developments in the fields in which it operates through a focus on scientific and clinical excellence and innovation. This translates into ensuring the Group's patients have the optimal opportunity of achieving a clinical pregnancy.

The Group offers industry leading ARS to its patients through its ability to attract and retain Fertility Specialists. The Group does this through:

- its pedigree of scientific excellence underpinning the strength of the Monash IVF Group name in Australia and overseas;
- provision of diagnostic, ancillary and ultrasound services, enabling the Group's Fertility Specialists to offer a comprehensive and high quality service to its patients;
- a continued commitment to research and training activities enabling the Group's Fertility Specialists to conduct research with leading scientists;
- the opportunity to work with industry leaders. Monash IVF Group's Fertility Specialists include examiners of the Certificate of Reproductive Endocrinology and Infertility (CREI) program, two College approved training supervisors and 11 university professors or associate professors;
- the operation of CREI training facilities. Monash IVF Group operates three CREI sub-speciality training centres in Australia which exposes a significant proportion of practitioners who are training to obtain a CREI to its businesses;
- its flexibility to allow Fertility Specialists to operate their non-IVF practices. Monash IVF Group's Fertility Specialists are able to practice in other fields of medicine independently of their Monash IVF Group ARS activities;
- the proprietary patient information system. Facilitating remote access and provides greater flexibility to Monash IVF Group's Fertility Specialists;
- Clinicians maintaining clinical sovereignty; and
- Competitive remuneration.

This strategy will translate into increased revenue and profit as the Group positions itself to service increasing numbers of patients through:

- organic growth in patient numbers seeking the service of a Group Doctor;
- attracting new Doctors to its existing network of clinics; and
- acquiring further clinics in Australia and overseas to enable the provision of these leading ARS.

The ability to acquire businesses internationally is enhanced by the reputation of the Group and its Doctors. The Group has a strong presence in Malaysia, which it intends to leverage for further expansion into the Asian region.

The Group sees particular growth opportunities in the Asian region arising from the many similarities in the demographics of the potential patient cohorts in many of the countries in the region combined with increasing affluence and social attitudes being favourable to ARS.

The Australian market has seen the development of lower intervention models for the provision of ARS. The Group has pursued this strategy also with the introduction of a low intervention model in Brisbane in February 2014 (trading as MyIVF) and a new facility in Sydney (trading as Bump IVF) in the first half of the 2015 financial year. The Group sees this as a way to expand the patient cohort by attracting patients for whom ARS may be seen as unaffordable. This model has strict criteria around suitability of patients for this service, with the transfer of those patients who are not suitable, to a Monash IVF Group full service clinic. The Group continues to explore opportunities to provide low intervention models of ARS in other geographic areas in Australia.

The Group is substantially advanced with the roll out of its proprietary patient information system across the wider Group. This will provide more efficient patient management for patients, clinicians and staff.

DIRECTORS' REPORT (cont.)

The Group has seen substantial demand for its expanded service offerings in the last 12 months and sees continued growth from these sources in particular the:

- 1) industry leading development in Pre-implantation Genetic Screening (PGS) tests for patients;
- 2) provision of NIPT by the Ultrasound business; and
- 3) importation of philanthropically donated eggs from the United States of America.

In particular we are seeing PGS testing as providing substantially improved pregnancy rates particularly for those patients with poorer prognoses which will attract more patients to the Group.

RISKS

Monash IVF Group operates in a highly regulated environment in Australia and is seeing a move towards increased regulation in Malaysia. The Group has established processes, procedures and policies to ensure compliance with the regulatory environment which operate at a number of levels. This focus on risk management is part of the culture of the Group. Incidents and "near misses" are reported and analysed against a risk matrix that assesses consequences ranging from Low to Catastrophic in areas such as patients, reputation, financial, environmental and employees and visitors. The risk matrix determines appropriate actions and responses to varying risks or incidents. Regular reporting of risk matter occurs to senior management and the Board. The Group maintains a risk register which is reviewed and updated annually, and forms the basis of the conduct of audits to assess compliance or impacts of remediation of risk areas.

As part of this approach to risk is the oversight of the Fertility Specialists by the Medical Advisory Committee (MAC). The MAC meets regularly to review clinical practices, outcomes and incidents. The MAC approves the clinical protocols followed by the Group's Doctors.

The Group maintains a comprehensive suite of insurance policies to respond to incidents if they arise. These policies are reviewed for adequacy and appropriateness regularly and constant monitoring of relevant areas occurs to ensure that these remain contemporary.

The Material risks faced by the Group and how these are managed include:

- Change in Commonwealth Government funding arrangements for ARS. This risk arises from the high proportion of government funding provided for ARS in Australia. The Group is seeing progression in the general health sector to rewarding performance and accountability for outcomes. The Group is confident that its success rates and commitment to ongoing research and the use of information technology would see us well placed to benefit if any changes proceeded along these lines. The Group has developed its lower intervention models to provide a lower priced alternative if government supplementation were reduced and more patients are unable to afford a full service offering. Finally, expansion of its international strategy reduces reliance on government and in its existing international markets and many of its potential international target areas, ARS receive little or no government supplementation.
- Inability to recruit and retain Fertility Specialists and/or scientific staff. The Group is a desirable place for Fertility Specialists and/or scientific staff to work given the reputation of the Group and its Fertility Specialists, its commitment to research, training opportunities and being at the forefront of scientific achievements. The Group competitively remunerates its Fertility Specialists and scientific staff.
- Risk of increased competition. The Group is committed to maintaining its status as a leading provider of ARS and firmly believe that its superior success rates, reputation and processes provide a significant differentiating factor to ensure that we are able to mitigate this risk. The Group regularly monitors its patients to ensure that their experience with the Group is positive and to provide insight into areas for improvement. The Group actively promotes its services directly to patients as well as referrers and continues to evolve the delivery of these messages as the needs of its patients and referrers (current and potential) change.
- Risk of reputational damage. The Group's risk processes identify this risk as arising particularly as a corollary of other risks and it is mitigated through a variety of means that minimise risk of adverse events including the recruitment and retention of Fertility Specialists and staff, the development and review of processes and protocols that maintain compliance with legislation, investment in capital to ensure the equipment used in its laboratories avoid incidents that may give rise to reputational harm and protocols around the portrayal of the Group particularly in the media.
- Monash IVF Group may be involved in disputes or litigation. The Group has wide ranging processes and procedures that seek to avoid incidents that may give rise to disputes or litigation in the first place. These include processes to ensure the Group complies with legislation/regulation. Appropriate personnel are charged to deal with such incidents and include matters dealt with under its open disclosure policies.
- Failure to satisfy legislative or regulatory requirements. The Group has dedicated staff to ensure compliance in these areas. The Group maintains a proud record in relation to meeting its accreditation requirements.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED

The remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of Monash IVF Group Limited (Company) in accordance with the requirements of the *Corporations Act 2001* (Cth) and its regulations. The information has been audited as required by section 308 (3C) of the Corporations Act.

The Remuneration report addresses the following issues:

1. Remuneration governance
2. Principles used to determine the nature and amount of remuneration
3. Executive remuneration
4. Non-executive Director (NED) remuneration
5. Details of remuneration for key management personnel
6. Mandatory redeemable preference shares (MRPS) and Promissory Notes
7. Loans to key management personnel
8. Other transactions with key management personnel
9. Key management personnel ownership of shares
10. Group performance

1 REMUNERATION GOVERNANCE

During the year the Remuneration and Nomination Committee was established. Under its charter, it must have at least three members, the majority of whom (including the Chair) must be independent Directors and all of whom must be non-executive Directors. The Committee is composed of the three independent directors and is chaired by Christina Boyce.

The Committee is responsible for reviewing and making recommendations to the Board with respect to the following issues:

- Executive recruitment, retention and termination policies and other employee benefits
- Appropriate remuneration of senior executives and executive Directors, including the structure and payment of STI and LTI, including equity based plans
- Senior executive and executive director performance evaluation
- Senior executive and executive director succession planning
- Composition, size, diversity and expertise of the Board and its sub-committees (Audit & Risk and Nominations & Remuneration)
- Evaluation of Director, Board and Board sub-committee performance
- Board and Director succession planning, nominations and development
- Transparent communication of the company's remuneration policies and requirements for appropriate shareholder approval
- The company's superannuation arrangements.

2 PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The executive remuneration framework is designed to:

- Assist in attracting and retaining exceptional people, rewarding both capability and experience
- Reward delivery of superior long term value to shareholders
- Recognise both financial and non-financial drivers of economic value
- Align management incentives with long term value creation for shareholders
- Allow clear and transparent disclosure of remuneration arrangements of relevant employees to the market
- Provide fair and consistent remuneration across the Group consistent with corporate values and principles.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

The absolute level of reward and the performance triggers that accompany it are designed to:

- Offer rewards, benefits and conditions that are competitive and reasonable
- Achieve an appropriate balance between the fixed and variable component
- Link payment of the variable component to the achievement of superior performance outcomes and delivery of shareholder value.

The Group's performance metrics are also designed to support:

- Continued profitable development and expansion of the business in the context of judicious capital management
- Delivery of safe, high quality clinical care for its patients
- Maintenance of a safe working environment for its people
- Effective and appropriate engagement with Government and regulatory bodies
- Effective communication and engagement with its shareholder base.

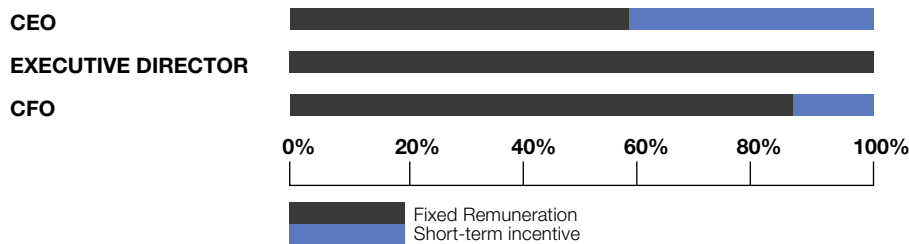
3 EXECUTIVE REMUNERATION

For the majority of senior executives, total remuneration consists of:

- Fixed annual remuneration including base pay, superannuation and leave entitlements
- Short term incentives.

A Long-Term Incentive (LTI) plan was included in the remuneration structure for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shortly after the year end.

The table below represents the target remuneration mix for Group Executives in the current year:



Fixed annual remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis) as well as non-monetary benefits, leave entitlements and superannuation. Remuneration levels will be reviewed annually by the Remuneration and Nomination Committee through a process that considers individual, segment and overall Group performance. Remuneration is also reviewed on promotion, however there are no guaranteed increases in base pay or superannuation included in executive contracts.

Short-term incentives

The Short-Term Incentive (STI) plan is designed to reward superior performance over a 12 month period. It is subject to the achievement of key performance indicators set at the beginning of each financial year by the Board with the assistance of the Remuneration and Nomination Committee. STI targets will be set for the CEO and CFO based on a number of internal and external factors. The CEO is entitled to a bonus of up to 75% of the base salary and the CFO is entitled to a bonus of up to 20% of the base salary.

The terms and conditions of both the CEO and CFO's contracts, including targets set, are determined by the Directors and at their discretion.

During the year, STIs were measurable against Group EBITDA and other non-financial discretionary measures on the overall performance of the Group.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

3 EXECUTIVE REMUNERATION continued

Long-term incentives

Under the Company's LTI Plan, awards (constituting Share Appreciation Rights, performance rights or options, or any different class or category of award on such terms as the Board determines) may be offered to eligible persons (including executives, contractors, senior management, other employees and Doctors) selected by the Directors. The company anticipates the development of two Long Term Incentive Programmes under its LTI Plan for:

1. Senior Executives. This programme is already established and described below.
2. Doctors. The Board anticipates the development of this programme and the Remunerations and Nominations Committee is in the process of assessing the benefits of such a programme and developing a proposal.

Mr James Thiedeman (CEO) and Mr Rodney Fox (CFO) are eligible to participate in the former. Dr Richard Henshaw (Executive Director) will be eligible to participate in the latter.

The invitations issued to eligible persons will include information such as award conditions and, upon acceptance of an invitation, the Directors will grant awards in the name of the eligible person. Awards will not be listed and may not be transferred, assigned or otherwise dealt with except with the approval of the Directors.

Awards will only vest where the conditions (if any) advised to the participant by the Directors have been satisfied. An unvested award will lapse in a number of circumstances, including where conditions are not satisfied within the relevant time period, or in the opinion of the Directors, a participant has committed an act of fraud or misconduct or gross dereliction of duty. If a participant's engagement with the Company (or one of its subsidiaries) terminates before an award has vested, the Directors may determine the extent to which the unvested awards that have not lapsed will become vested awards or, if the award offer does not so provide and the Board does not decide otherwise, the unvested awards will automatically lapse.

Where there is a takeover bid or a scheme of arrangement proposed in relation to the Company, the Directors may determine that the participant's unvested awards will become vested awards. In such circumstances, the Directors shall promptly notify each participant in writing that the awards have become vested awards, or that he or she may, within the time period specified in the notice and where applicable in accordance with the class or category of award, exercise such vested awards. A participant is not entitled to participate, in their capacity as holder of awards, in any new issue of shares in the Company, nor in any return of capital, buyback or other distribution or payment to shareholders, unless the Board determines otherwise. In the event of a bonus issue or rights issue, the rights of the award will be altered in a manner (if any) determined by the Board, consistent with the ASX Listing Rules.

In the event of any reorganisation of the issued ordinary capital of the Company before the exercise of an award, the number of shares attaching to each award will be reorganised in the manner specified in the LTI plan and in accordance with the ASX Listing Rules or, if the manner is not specified, the Board will determine the reorganisation.

In any event, the reorganisation will not result in any additional benefits being conferred on participants which are not conferred on shareholders of the Company.

Participants who hold an award issued pursuant to the LTI plan have no rights to vote at meetings of the Company until that award has vested (and is exercised, if applicable) and the participant is the holder of a valid share in the Company. shares acquired upon vesting of the award will, upon issue, rank equally in all respects with other shares.

No award or share may be offered under the LTI plan if to do so would contravene the Corporations Act, the ASX Listing Rules or instruments of relief issued by ASIC from time to time.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

Senior executive LTI programme

The CEO and CFO were granted 800,000 and 200,000 options respectively on 30 July 2014 on the terms described below. They did not need to pay any money to be granted those options, and there will be no loan from the Company for the acquisition of shares upon vesting of the options.

The senior executive options granted include terms which provide that, on vesting, following payment of the exercise price, each option is exercisable into one Share (subject to adjustments in accordance with the ASX Listing Rules for certain capital actions). These options will be granted in two tranches, with each tranche subject to separate vesting conditions based upon external measures as follows:

- The hurdle for 50% of the options will be based on an earnings per share hurdle which measures the compound growth in the Company's earnings per share ('EPSG') over a three year period. No options will vest at an EPSG below 8% per annum, with vesting thereafter determined on a straight line scale with 100% vesting at an EPSG of 10% per annum; and
- The hurdle for 50% of the options will be based on the Company's total shareholder return ('TSR') relative to a peer group of ASX listed companies determined by the Board over the three year performance period. In respect of this tranche, no options will vest if the TSR performance is less than 50th percentile and 50% will vest at median (i.e. the 50th percentile). TSR performance and vesting thereafter will be determined on a straight line scale, with 100% vesting if the TSR performance is greater than or equal to the 75th percentile. TSR growth is calculated based on the closing Share price, adjusted for dividends and capital movements, as at the start of the performance period and the end of the performance period.

The performance hurdles for each tranche of options are not interdependent, and it is possible for one tranche to vest while the others do not. In each case, the performance hurdles will only be measured once and there will be no retesting. The expiry date of the options will be on the fifth anniversary of their grant. No value will be received if the performance hurdles are not met and the options do not vest.

Doctors LTI programme

As outlined previously, the Board anticipates the development of an LTI programme for Doctors and the Remunerations and Nominations Committee is in the process of assessing the benefits of such a programme and developing a proposal. Awards granted to Doctors under such a programme may take the form of share appreciation rights ('SARs').

Service agreements

Remuneration and other terms of employment for the executives are formalised in service agreements. The service agreements specify the components of remuneration, benefits and notice periods. Employment contracts with key members of management include:

- Total compensation including base salary, superannuation contribution and incentive arrangements
- Fixed notice periods
- Confidentiality provisions
- Leave entitlements
- Restraint provisions ranging from three to six months following expiry of the notice period.

The enforceability of restraint provisions is subject to the usual legal requirements. Key management personnel do not have an entitlement to termination payments.

Name and position	Term of agreement	Notice period	Base salary including superannuation \$
CEO	No fixed term	6 months	390,000
Executive Director	No fixed term	6 months	343,000
CFO	No fixed term	3 months	290,000

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

4 NON-EXECUTIVE DIRECTOR (NED) REMUNERATION

Under the constitution, the Directors decide the total amount paid to all Directors as remuneration for their services as a Director. However, under the ASX Listing Rules, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year, the amount fixed by the Company in a general meeting. This amount has been fixed by the Company at \$750,000. For the 2015 financial year, it is expected that the fees payable to the current NEDs will not exceed \$420,000 in aggregate.

Role	\$
Base fees	
Chair	130,000
Other non-executive directors	80,000
Additional fees	
Audit & risk committee – chair	15,000
Audit & risk committee – member	7,500
Remuneration & Nomination committee – chair	10,000
Remuneration & Nomination committee – member	5,000

5 DETAILS OF REMUNERATION FOR KEY MANAGEMENT PERSONNEL

Key management personnel have authority and responsibility for planning, directing and controlling the activities of Monash IVF Group, directly or indirectly, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and the senior executive for the Group named in this report.

Name	Position
Mr Richard Davis ⁽¹⁾	Non-executive Chairman
Mr Josef Czyzewski ⁽¹⁾	Non-executive Director
Ms Christina Boyce ⁽¹⁾	Non-executive Director
Mr Neil Broekhuizen ⁽²⁾	Non-executive Director
Mr Benjamin ('James') Thiedeman ⁽²⁾	CEO
Dr Richard Henshaw ⁽²⁾	Executive Director
Mr Rodney Fox ⁽²⁾	CFO
Mr Tom Woolley ⁽⁴⁾	Non-executive Director
Prof Gabor Kovacs ⁽³⁾	Executive Director
Dr Anthony Lawrence ⁽³⁾	Executive Director

(1) Key management personnel from 4 June 2014.

(2) These individuals were key management personnel throughout the period 1 July 2012 to 30 June 2014.

(3) From 30 October 2013 to 26 June 2014, these key management personnel were directors of Healthbridge Enterprises Pty Ltd and ceased to be key management personnel on 26 June 2014.

(4) Tom Woolley was a key management personnel during the period 1 July 2012 to 26 June 2014.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

The following tables show details of the remuneration received by the group's key management personnel for the current and prior financial years.

2014

Name	Short term employee benefits				Post employment benefits		Termination benefits	Share based payments		Total
	Salary & fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefit	Other long-term benefits		Options and rights		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive Directors										
Mr Richard Davis ⁽¹⁾	–	–	–	–	–	–	–	–	–	–
Mr Josef Czyzewski ⁽¹⁾	–	–	–	–	–	–	–	–	–	–
Ms Christina Boyce ⁽¹⁾	–	–	–	–	–	–	–	–	–	–
Mr Neil Broekhuizen ⁽²⁾	37,500	–	–	37,500	–	–	–	–	–	37,500
Mr Tom Woolley ⁽²⁾	37,500	–	–	37,500	–	–	–	–	–	37,500
Total non-executive Directors	75,000	–	–	75,000	–	–	–	–	–	75,000
Executive Directors										
Mr Benjamin ('James') Thiedeman	382,341	292,505	–	674,846	25,000	11,091	–	–	–	710,937
Dr Richard Henshaw	420,868	–	–	420,868	17,775	13,349	–	–	–	451,992
Prof Gabor Kovacs ⁽³⁾	26,667	–	–	26,667	–	–	–	–	–	26,667
Dr Anthony Lawrence ⁽³⁾	26,667	–	–	26,667	–	–	–	–	–	26,667
Total executive Directors	856,543	292,505	–	1,149,048	42,775	24,440	–	–	–	1,216,263
Other key management personnel										
Mr Rodney Fox	279,095	50,000	–	329,095	24,479	5,575	–	–	–	359,149
Total other key management personnel	279,095	50,000	–	329,095	24,479	5,575	–	–	–	359,149
Total	1,210,638	342,505	–	1,553,143	67,254	30,015	–	–	–	1,650,412

(1) Remuneration for Richard Davis, Josef Czyzewski and Christina Boyce commenced on 1 July 2014. Accordingly, no remuneration was earned during 2014.

(2) Fees to Neil Broekhuizen and Tom Woolley were payable to Ironbridge Capital Management Pty Ltd.

(3) Professor Gabor Kovacs and Dr Anthony Lawrence received clinician fees for IVF services delivered to patients. In addition, refer to Note 26 in the financial report.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

2013

Name	Short term employee benefits				Post employment benefits		Termination benefits	Share based payments		Total
	Salary & fees	STI Cash bonus	Non-monetary benefits	Total	Super-annuation benefit	Other long-term benefits		Options and rights		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive Directors										
Mr Neil Broekhuizen ⁽¹⁾	30,000	–	–	30,000	–	–	–	–	–	30,000
Mr Tom Woolley ⁽¹⁾	30,000			30,000						30,000
Total non-executive Directors	60,000	–	–	60,000	–	–	–	–	–	60,000
Executive Directors										
Mr Benjamin ('James') Thiedeman	331,531	245,671	–	577,202	25,000	8,057	–	–	–	610,259
Dr Richard Henshaw	440,501	–	–	440,501	16,463	13,518	–	–	–	470,482
Total executive Directors	772,032	245,671	–	1,017,703	41,463	21,575	–	–	–	1,080,741
Other key management personnel										
Mr Rodney Fox	233,274	50,000	–	283,274	20,642	3,907	–	–	–	307,823
Total other key management personnel	233,274	50,000	–	283,274	20,642	3,907	–	–	–	307,823
Total	1,065,306	295,671	–	1,360,977	62,105	25,482	–	–	–	1,448,564

(1) Fees to Neil Broekhuizen and Tom Woolley were payable to Ironbridge Capital Management Pty Ltd.

Analysis of bonuses included in remuneration

Details of the vesting profile of the STI cash bonuses awarded as remuneration to each director of the Company and other key management personnel are detailed below:

	Cash Bonus (2014)			Cash Bonus (2013)		
	Payable (\$)	% of available bonus		Paid \$	% of available bonus	
		Payable %	Not Payable %		Paid %	Not Paid %
Executive directors						
Mr Benjamin ('James') Thiedeman	292,505	100%	–	245,671	100%	–
Dr Richard Henshaw	–	–	–	–	–	–
Other key management personnel						
Mr Rodney Fox	50,000	100%	–	50,000	100%	–

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

6 MANDATORY REDEEMABLE PREFERENCE SHARES (MRPS) AND PROMISSORY NOTES

Details of MRPS and Promissory Notes issued to KMP is detailed below. As at 30 June 2014, these instruments have been repaid and/or converted to ordinary shares.

Name	Balance at start of year ⁽¹⁾ \$	Acquired during the year \$	Interest accrued for the year \$	Re-payments during the year \$	Sold during the year \$	Converted to ordinary shares \$	Balance at end of year \$
Executive directors							
Mr Benjamin ('James') Thiedeman	592,750	311,253	41,077	(622,367)	–	(322,713)	–
Dr Richard Henshaw	5,724,108	–	325,800	(1,334,357)	(2,923,133)	(1,792,418)	–
Prof Gabor Kovacs ⁽²⁾⁽³⁾	1,267,427	–	46,101	(865,002)	–	n/a	–
Dr Anthony Lawrence ⁽²⁾⁽³⁾	1,475,701	–	53,676	(1,007,146)	–	n/a	–
Other key management personnel							
Mr Rodney Fox	–	97,267	930	(64,666)	–	(33,531)	–
Total	9,059,986	408,520	467,584	(3,893,538)	(2,923,133)	(2,148,662)	–

(1) Relates to a mixture of MRPS/Promissory Note instruments held in Healthbridge Enterprises Pty Ltd and Monash IVF Holdings Pty Ltd.

(2) Balance at start of year relates to the MRPS/Promissory Note instruments held on KMP appointment date. Interest accrued for the year is for the period the individual is considered KMP.

(3) The individual ceased to be KMP prior to the conversion of instruments to Monash IVF Group Ltd shares.

7 LOANS TO KEY MANAGEMENT PERSONNEL

Details of loans made to directors of Monash IVF Group Limited and other key management personnel of the group, including their close family members and entities related to them, are set out below. The loans were advanced to enable purchase of equity and redeemable preference shares in a subsidiary.

	Balance 1 July 2013	New loans	Interest charged for the year	Repayments	Balance 30 June 2014
Mr Benjamin ('James') Thiedeman	217,055	400,000	12,810	(629,865)	–
Mr Rodney Fox	–	62,500	1,444	(63,944)	–
Total for key management personnel or their related parties	217,055	462,500	14,254	(693,809)	–

Loans made to Group executives during the year were on the same terms as loans available to other employees and Fertility Specialists and accrue interest calculated at an arms length rate. Loans made to Group executives were re-paid in full during the year.

8 OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Group paid clinical fees to doctor directors in their capacity as practising fertility specialists on terms and conditions no more favourable than those available in similar arm's length dealings. These have been included within Note 26 'Related Parties' of the Financial Report.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT – AUDITED (continued)

9 KMP OWNERSHIP OF SHARES

Prior to the initial public offering on 26 June 2014, no KMP held shares in Monash IVF Group Limited. As part of the IPO, certain KMPs converted existing shareholdings into shares of Monash IVF Group Limited and acquired shares as part of the offering. This movement in shareholdings is:

Name	Balance at start of year	Shares issued during year ⁽¹⁾	Shares purchased during the year	Shares sold during the year	Balance at end of year
Non-executive directors					
Mr Richard Davis	–	–	27,026	–	27,026
Mr Josef Czyzewski	–	–	27,027	–	27,027
Ms Christina Boyce	–	–	16,215	–	16,215
Mr Neil Broekhuizen	–	–	100,000	–	100,000
Executive directors					
Mr Benjamin ('James') Thiedeman	–	1,063,958	2,000	–	1,065,958
Dr Richard Henshaw	–	1,833,801	–	–	1,833,801
Other key management personnel					
Mr Rodney Fox	–	133,431	5,000	–	138,431
Total	–	3,031,190	177,268	–	3,208,458

(1) Relates to conversion of existing shareholdings into Monash IVF Group Ltd shares at IPO on 26 June 2014.

(2) Prof Gabor Kovacs and Dr Anthony Lawrence were not considered KMP of Monash IVF Group Limited on 26 June 2014, when existing shareholdings were converted to Monash IVF Group Ltd shares.

10 GROUP PERFORMANCE

The revenue and earnings of the consolidated entity for the five years to 30 June 2014 are summarised below:

Measure	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000
Revenue	114,012	96,598	93,243	83,539	75,772
EBITDA ⁽¹⁾	36,782	36,746	21,309	19,137	9,559

(1) The EBITDA for 2014 is adjusted to add back costs associated with the IPO.

During the period, Revenue and EBITDA were key quantitative measures to assess the Group's performance. Going forward, the Group expects Net Profit After Tax, TSR and Earnings per Share (EPS) to be key performance measures, and additionally, a number of qualitative metrics will be relevant when assessing the Group's performance. EBITDA is a major component of the STI plans for both the CEO and CFO. In future, TSR and EPS will be provided in the Remuneration Report given these metrics underpin LTI plans for the CEO and CFO.

The basic earnings per share was 2.0 cents for the year based on the weighted average number of shares during the year and 1.1 cents per share based on the number of shares on issue at year end (refer to Note 11 of the financial report).

A dividend of \$25,223,579 was paid to the previous shareholders immediately prior to the IPO.

INSURANCE OF OFFICERS

During or since the end of the year, the Group paid a premium in respect of a contract insuring each of the Directors of the Company, the Company Secretary and executives of the Company against liabilities that are permitted to be covered by Section 199B of the *Corporations Act 2001*. It is a condition of the insurance contract that the limits of indemnity, the nature of the liability and the amount of the premium is not disclosed.

DIRECTORS' REPORT (cont.)

INDEMNIFICATION OF OFFICERS

The Company has agreed to indemnify the Directors and Secretary of the Company, and its controlled entities against all liabilities to another person (other than the Company) that may arise from their position as Directors or Secretary, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

ROUNDING OFF

The Company is of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the Annual Financial Report are rounded off to the nearest thousand dollars, the Remuneration report is rounded off to the nearest dollar, and the Directors' Report is rounded off to the nearest decimal of a million dollars, unless otherwise stated.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor has performed certain other services in addition to its statutory duties. The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services are subject to corporate governance procedures adopted by the Group and have been reviewed by those charged with governance throughout the year to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to audit independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details on audit and non-audit service fees paid or payable to the Company's auditors during the year are disclosed in Note 27 of the Financial Report.

The Directors' report is made out in accordance with a resolution of the directors:



Mr Richard Davis
Chairman

Dated at Sydney this 28th day of August 2014.

AUDITOR'S INDEPENDENCE DECLARATION



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Monash IVF Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne

28 August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated	
		2014 \$'000	2013 Restated \$'000
Revenue	6	114,012	96,598
Employee benefits expense		(29,675)	(26,923)
Clinicians fees		(17,544)	(15,042)
Raw materials and consumables used		(11,438)	(7,537)
IT and communications expense		(2,716)	(2,298)
Depreciation expense	14	(2,367)	(3,388)
Amortisation expense	15	(524)	(1,237)
Property expense		(5,392)	(4,382)
Marketing, advertising and public relations expense		(3,531)	(1,970)
Professional and other fees		(2,354)	(2,086)
Other expenses	7	(4,580)	(1,248)
Profit on disposal of PPE		-	1,634
IPO transaction costs		(12,281)	-
Operating Profit		21,610	32,121
Finance income	8	1,396	963
Finance expenses	8	(24,921)	(35,387)
Net finance costs		(23,525)	(34,424)
Loss before tax		(1,915)	(2,303)
Income tax benefit/(expense)	9	6,767	(10,422)
Profit/(loss) for the year		4,852	(12,725)
Other comprehensive income/(loss)			
Cash flow hedges		280	1,951
Tax on cash flow hedges		(84)	(585)
Exchange difference on translation of foreign operations		(58)	-
Other comprehensive income for the year, net of tax		138	1,366
Total comprehensive income/(loss) for the year		4,990	(11,359)
Profit/(loss) attributable to:			
Owners of the company		2,581	(14,856)
Non-controlling interests		2,271	2,131
Profit/(loss) for the year		4,852	(12,725)
Total comprehensive income/(loss) attributable to:			
Owners of the company		2,719	(13,118)
Non-controlling interests		2,271	1,759
Total comprehensive income/(loss) for the year		4,990	(11,359)
Earnings per share			
Basic earnings per share (cents)	11	2.0	(30.0)
Diluted earnings per share (cents)	11	2.0	(30.0)

For the year ended 30 June 2014, the Group has redefined the categories of expenses disclosed in the table above, consistent with how they are reviewed and analysed for internal management purposes, to provide improved transparency. As a result, the classification of certain expenses have been amended. The prior year comparatives have been restated to reflect these changes.

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

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents	12	8,786	40,632
Trade and other receivables	13	2,969	3,174 ⁽¹⁾
Other assets		2,791	2,267
Total current assets		14,546	46,073
Non current assets			
Trade and other receivables	13	448	3,198
Property, plant and equipment	14	9,131	6,729
Intangible assets	15	219,676	209,131
Deferred tax assets	9	2,557	482
Total non current assets		231,812	219,540
Total assets		246,358	265,613
Current liabilities			
Trade and other payables	16	17,944	14,016 ⁽¹⁾
Borrowings	19	56	102,769
Current tax liability		788	145
Employee benefits	17	5,405	4,642
Total current liabilities		24,193	121,572
Non current liabilities			
Trade and other payables		-	8
Borrowings	19	95,486	181,217
Employee benefits	17	859	656
Deferred tax liabilities	9	-	9,079
Contingent consideration		1,000	-
Total non current liabilities		97,345	190,960
Total liabilities		121,538	312,532
Net assets/(liabilities)		124,820	(46,919)
Equity			
Contributed equity	20	422,566	49,514
Reserves		(136,854)	(181)
Retained earnings		(160,892)	(63,096)
Total equity attributable to ordinary shareholders of Monash IVF Group limited		124,820	(13,763)
Non controlling interest		-	(33,156)
Total equity		124,820	(46,919)

(1) See Notes 2, 13 and 16 for details.

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

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	Contributed equity \$'000	Other equity reserve ⁽¹⁾ \$'000	Retained earnings \$'000	Translation reserve \$'000	Hedging reserve \$'000	Total \$'000	Non-controlling interest \$'000	Total Equity \$'000
Consolidated Balance at 30 June 2012	49,514	–	(52,038)	–	460	(2,064)	(30,520)	(32,584)
Profit or loss for the year	–	–	(14,856)	–	–	(14,856)	–	(14,856)
Total other comprehensive income	–	–	–	54	1,738	1,792	(371)	1,421
Total comprehensive income/(loss) for the year	–	–	(14,856)	54	1,738	(13,064)	(371)	(13,435)
Transactions with owners in their capacity as owners directly in equity								
Transfer to/(from) equity accounts	–	–	2,433	–	(2,433)	–	–	–
Profit/(Loss) attributable to minority interest	–	–	–	–	–	–	2,130	2,130
Dividends paid	–	–	–	–	–	–	(2,153)	(2,153)
Changes on ownership interest in subsidiaries that do not result in a loss of control	–	–	1,365	–	–	1,365	(2,242)	(877)
Consolidated Balance at 30 June 2013	49,514	–	(63,096)	54	(235)	(13,763)	(33,156)	(46,919)
Profit or loss for the year	–	–	2,581	–	–	2,581	2,271	4,852
Total other comprehensive income	–	–	–	(58)	196	138	–	138
Total comprehensive income/(loss) for the year	–	–	2,581	(58)	196	2,719	2,271	4,990
Transactions with owners in their capacity as owners directly in equity								
Issue of ordinary shares in Healthbridge Enterprises Pty Ltd	112,801	–	–	–	–	112,801	–	112,801
Issue of ordinary shares in Monash IVF Group Ltd	427,500	–	–	–	–	427,500	–	427,500
Share issue costs	(4,934)	–	–	–	–	(4,934)	–	(4,934)
Acquisition of non-controlling interests without a change in control	–	–	(75,153)	–	–	(75,153)	31,856	(43,297)
Acquisition adjustment	(162,315)	(136,811)	–	–	–	(299,126)	–	(299,126)
Dividends paid	–	–	(25,224)	–	–	(25,224)	(971)	(26,195)
Consolidated Balance at 30 June 2014	422,566	(136,811)	(160,892)	(4)	(39)	124,820	–	124,820

(1) The Other Equity Reserve represents the difference between the Issued Capital in Healthbridge Enterprises Pty Ltd and the consideration paid to acquire Healthbridge Enterprises Pty Ltd on 26 June 2014. Refer to Note 5 for further information.

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

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated	
		2014 \$'000	2013 Restated \$'000
Cash flows from operating activities			
Receipts from customers ⁽¹⁾		115,033	96,923
Payments to suppliers and employees ⁽¹⁾		(77,303)	(60,277)
Cash generated from operations		37,730	36,646
Income taxes paid		(1,508)	(6,540)
Net cash flows from operating activities	24	36,222	30,106
Cash flows from investing activities			
Interest received		1,946	1,316
Payments for property, plant and equipment		(3,821)	(3,297)
Proceeds from sale of property, plant and equipment		–	24,714
Payments for subsidiaries		(10,078)	(5,260)
Acquisition of Healthbridge Enterprises Pty Ltd		(203,055)	–
Acquisition of minority interests		(1,310)	(877)
Net cash flows used in investing activities		(216,318)	16,596
Cash flows from financing activities			
Net proceeds from issue of share capital		301,026	–
Receipt of borrowings		262,479	–
Receipt of loans receivable		1,515	–
Repayments of borrowings		(348,903)	(23,020)
Interest paid		(41,614)	(10,497)
Dividends paid		(26,195)	(2,153)
Net cash flows used in financing activities		148,308	(35,670)
Total cash flows from activities		(31,788)	11,032
Cash and cash equivalents at the beginning of the year		40,632	29,600
Effects of exchange rate changes on foreign currency cash flows and cash balances		(58)	–
Cash and cash equivalents at end of the year	12	8,786	40,632

(1) The comparative cash receipts from customers and cash paid to suppliers and employees have been restated to reflect that the majority of these transactions are GST exempt. The restatement does not impact the comparative net cash flows from operating activities and comparative net movement in cash flows and is not considered to be material.

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

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 REPORTING ENTITY

Monash IVF Group Limited (the 'Company') is a for profit company primarily involved in the area of assisted reproductive services. The Company is incorporated in Australia and listed on the Australian Stock Exchange. Its registered office is at Level 1, 21-31 Goodwood Street, Richmond, Victoria and it is limited by shares. The consolidated financial statements comprise the Company and its controlled entities (collectively 'the consolidated entity', 'Monash IVF Group' or 'Group').

Monash IVF Group Ltd and its wholly owned subsidiary Monash IVF Group Acquisitions Pty Ltd were incorporated on 30 April 2014.

On 26 June 2014, the shareholders of Monash IVF Group Limited, Monash IVF Group Acquisitions Pty Ltd and Healthbridge Enterprises Pty Ltd undertook a corporate reorganisation, through which Monash IVF Group Acquisitions Pty Ltd acquired Healthbridge Enterprises Pty Ltd. The transaction was under common control and in accordance with Australian Accounting Standards (AASB). The financial report of Monash IVF Group Limited includes the historical financial information of Healthbridge Enterprises Pty Ltd for the period before the acquisition. The Company's accounting policy for common control transactions is to account for the acquisition at book value (carry-over basis).

In adopting this approach, the directors note that there is an alternate view that such a restructure conditional on the IPO completing should be accounted for as a business combination that follows the legal structure of Monash IVF Group Limited being the acquirer. If this view had been taken, the net assets of the Group would have been uplifted to fair value, based on the transactional consideration of \$299.1m as detailed in Note 5, with consequential impacts on the profit and loss and statement of financial position.

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

The financial report represents the period 1 July 2013 to 30 June 2014, including the consolidated financial results for Monash IVF Group Limited for the period 26 June to 30 June 2014, and the consolidated group under Healthbridge Enterprises Pty Ltd for the period 1 July 2013 to 25 June 2014.

The comparative information presented in the financial report represents the financial position of Healthbridge Enterprises Pty Ltd as at 30 June 2013 and its performance for the period 1 July 2012 to 30 June 2013. Refer to Note 5.

2 BASIS OF PREPARATION

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report of the Group also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was approved by the Board of Directors on 28 August 2014.

Going concern

At 30 June 2014 the Group has a net current asset deficiency of \$9,647,000.

The directors consider that there are reasonable grounds to believe the Group will be able to pay its debts as and when they fall due as forecast operating cashflows indicate that cash reserves are sufficient to fund operations, the availability of \$9.0m of undrawn and committed external debt and the unlikelihood of certain current liabilities such as employee entitlements and deferred income will not be fully realised in the short term to cause a liquidity risk.

Basis of measurement

The financial report has been prepared on an accrual basis and is based on historical cost, except for derivative financial instruments and contingent consideration assumed in a business combination, which have been measured at fair value.

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of the Company and the majority of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission (ASIC), relating to the rounding off of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off in accordance with that Class Order to the nearest thousand, unless specifically stated to be otherwise.

Reclassification of comparatives

Statement of cash flows

The comparative “cash receipts from customers” and “cash paid to suppliers and employees” have been restated to reflect that the majority of these transactions are GST exempt. The restatement does not impact the comparative net cash flows from operating activities and comparative net movement in cash flows and is not considered material.

Statement of financial position

The comparatives of “other debtors” and “prepaid income” included in Notes 13 and 16 respectively, have been offset to the extent revenue has been earned. This adjustment is not considered material to the financial report as it has no impact on the comparative profit and loss, net current asset and net asset positions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been consistently applied by group entities.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Monash IVF Group Limited as at 30 June 2014 and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations 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 an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Minority interests of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the following:

- fair values of the assets transferred
- fair value of liabilities assumed
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase. 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. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Foreign currency translation

Transactions in foreign currencies are translated at foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised costs in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date.

The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income (OCI), and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such items are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and presented within equity in the translation reserve in equity.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Revenue from rendering of services is recognised on completion of services provided. Revenue is recognised on completion of a medical procedure, on supply of drugs, or on completion of analytical tests. If payments received from patients exceed the revenue recognised the difference is recognised as deferred revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Deferred revenue

Fees for fertility treatment cycles paid in advance of the provision of service supply are recognised as deferred revenue until the time the service is rendered to the customer when the fees are recognised as revenue.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns.

Other revenue

Other revenue is recognised when the right to receive revenue has been established.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions; they are then recognised in profit or loss as other income on a systematic basis over the life of the contract or arrangement.

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

Finance income and finance costs

Finance income and finance costs include:

- Interest income
- Interest expense
- Dividend income
- Dividends on redeemable preference shares issued classified as financial liabilities;
- Foreign currency gain or loss on financial assets and financial liabilities;
- The fair value gain or loss on contingent consideration classified as a financial liability;
- The net gain or loss on hedging activities that are recognised in profit or loss; and
- The reclassification of net gains previously recognised in OCI.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date that the right to receive payment is established.

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Deferred tax continued

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation legislation

On 24 October 2013 Healthbridge Reformed Pty Ltd and its subsidiaries and Monash IVF Holdings Pty Ltd and its subsidiaries joined the Healthbridge Enterprises Pty Ltd tax consolidated group.

On 30 April 2014 Monash IVF Group Limited and its wholly owned subsidiary formed a new tax consolidated group. The entities entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The head entity is Monash IVF Group Limited.

On 26 June 2014 the Healthbridge Enterprises Pty Ltd tax consolidated group joined the Monash IVF Group Limited tax consolidated group.

Current tax expense/(income), deferred tax assets and liabilities arising from temporary differences of the members of each tax consolidated group are allocated to the head entity of the tax consolidated group and recognised using a 'Group allocation' approach. Deferred tax assets and liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Group's balance sheet and their tax values applying under tax consolidation. Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity, and are recognised as amounts payable/(receivable) to other entities in the tax consolidated group in conjunction with the tax funding arrangement amounts.

The Group recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the Company will be available against which the assets can be utilised. The Group assesses the recoverability of its unused tax losses and tax credits only in the period which it arises, and before assumption by the head entity, in accordance with AASB 112. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of the revised assessment of the probability of recoverability are recognised by the head entity only.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of cash balances and term deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitment.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are reviewed and a provision for impairment is established when there is objective evidence that amounts may not be collectible according to the original terms of the sales transaction. Bad debts are written off when identified.

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

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised on a net basis within "other income" in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of the property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	2014	2013
Property, plant and equipment	2-10 years	2-10 years
Software	2-10 years	2-10 years
Buildings	40 years	40 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Assets in work-in-progress are not depreciated until commissioned for use.

Intangible assets

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Company's share of net identifiable assets of the acquired entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or an other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Impairment

Non-derivative financial assets (including receivables)

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and infinite life intangible assets are tested annually for impairment.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the 'cash-generating' units).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Derivative financial instruments, including hedge accounting

The Group holds or held derivative financial instruments to hedge certain floating interest rate and foreign exchange exposures. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the change in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes to therein are accounted for as described below. All derivative financial instruments are valued using unadjusted quoted prices in active markets for identical assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Cash flow hedge

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedge reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during their lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Loans and borrowings

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

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

Mandatory redeemable preference shares are classified as liabilities. The redemption premium on these preference shares is recognised in the profit and loss as finance costs.

Contributed equity

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.

Other equity reserve

The other equity reserve represents the difference between the issued capital in Healthbridge Enterprises Pty Ltd and Monash IVF Group Ltd on 26 June 2014, being the date Monash IVF Group Ltd acquired Healthbridge Enterprises Pty Ltd. Refer to Note 5 for further details.

Hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to highly probable forecast transactions. The future periods in which the cash flows associated with derivatives in the cash flow hedge reserve are expected to impact profit and loss are the same as when the associated cash flows are expected to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Employee benefits

Short-term obligations

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Other long-term obligations

All other employee benefits are measured at their present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. The discount rate is the yield at the reporting date on Australian Government bonds that have maturity dates approximating the terms of the Group's obligations.

Share based payments

The Group will provide benefits to certain employees in the form of share-based payment options.

The fair value of options granted under the plans are 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 employee becomes unconditionally entitled to the options.

Fair value is measured at grant date using a Monte-Carlo Simulation option pricing model performed by an independent valuer which models the future security price.

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

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

New standards and interpretations

The Group has applied the following standards and amendments for first time commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 128 *Investments in Associates and Joint Ventures*
- AASB 127 *Separate Financial Statements*
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance* and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 13 *Fair Value Measurement*
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*
- AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- AASB 119 *Employee Benefits* (September 2011)
- AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011)
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*
- AASB 2013-3 *Recoverable amounts disclosed for non-financial assets arising from AASB 136*

The adoption of the above standards and amendments do not have a material effect on the financial position or performance of the Group, however the following do have a material impact on certain disclosures:

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

The standard provides a single measurement framework for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The standard will not introduce new requirements when fair valuing an asset or liability however, it has increased the disclosure requirements surrounding measurement of these assets and liabilities.

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

The amendment to AASB 124 '*Related Party Disclosures*' removes the disclosure requirements of individual key management personnel (KMP). The adoption of this amendment will remove the duplication of information relating to individual KMP in the notes to the financial report and the directors report. The Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors report.

The following Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been adopted for this annual reporting period:

- AASB 9 *Financial Instruments* – addresses the classification, measurement and derecognition of financial assets and financial liabilities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that have a significant risk in respect of estimates based on future events which could have a material impact on the assets and liabilities are:

Property, plant and equipment and definite life intangible assets

The Group's property, plant and equipment and definite life intangible assets are depreciated/amortised over their useful economic lives. Management reviews the appropriateness of useful economic lives of assets and any impairment indicators annually by evaluating conditions specific to the consolidated Group and to the particular asset.

Goodwill and other indefinite life intangible assets

Goodwill and other indefinite life intangible assets become impaired when their carrying value exceeds their recoverable amount. This is determined based on the accounting policy stated in Note 3. Recoverable amount is the greater of fair value less costs to sell or value in use. In determining recoverable amount, judgements and assumptions are made in the determination of likely net sale proceeds or in the determination of future cash flows which support a value in use. Specifically with respect to future cash flows, judgements are made in respect to the quantum of those future cash flows, the discount rates (cost of capital and debt) applied to present value the cash flows and exchange rates.

Business acquisitions

The consolidated financial statements include information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control the entity.

The determination as to the existence of control or significant influence over an entity necessarily requires management judgement to assess the Group's ability to govern the financial and operating activities of an investee. In making such an assessment, a range of factors are considered including voting rights in an investee and board and management representation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES continued

Business acquisitions continued

A business acquisition also requires judgement with respect to the determination of the fair value of purchase consideration given and the fair value of identifiable assets and liabilities acquired. The identification and valuation for such assets and liabilities including brand names, customer relationships, patents, trademarks and contingent liabilities are initially recorded on a provisional basis which requires estimation and certain judgements on inputs. Refer to Note 5 for further information relating to the corporate reorganisation and Note 22 for other acquisitions.

Taxation

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. A degree of judgement is required when assessing the application of income tax legislation, and any impact on the recognition and reliability of deferred tax balances. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Employee provisions

Provisions for employee entitlements relating to long-service leave requires a degree of estimation and judgement regarding employee service periods, discount rates and future increases in salary rates.

5 CORPORATE REORGANISATION

On 26 June 2014, the shareholders of the Company, Monash IVF Group Acquisitions Pty Ltd and Healthbridge Enterprises Pty Ltd undertook a corporate reorganisation in which Monash IVF Group Acquisitions Pty Ltd acquired all the equity in Healthbridge Enterprises Pty Ltd. This corporate reorganisation is classified as a common control transaction under AASB 3 "Business Combinations", and is therefore not considered a business combination under this Standard.

The Company's accounting policy for common control transactions is to account for the acquisition at book value (carry-over basis). No fair value adjustments are recognised on the acquisition and the financial report represents a continuation of Healthbridge Enterprises Pty Ltd except for an adjustment to reflect the share capital of the legal parent of the Monash IVF Group Limited consolidated group. The Company has applied this accounting approach as it best describes the historical performance of the existing Reporting Group.

Accordingly, the financial report represents the period 1 July 2013 to 30 June 2014, including the consolidated financial results for Monash IVF Group Ltd for the period 26 June to 30 June 2014, and the Healthbridge Enterprises Pty Ltd consolidated group for the period 1 July 2013 to 25 June 2014.

The comparative information presented in the financial report represents the financial position of Healthbridge Enterprises Pty Ltd as at 30 June 2013 and its performance for the period 1 July 2012 to 30 June 2013.

A reconciliation of the consideration transferred to acquire Healthbridge Enterprises Pty Ltd is presented below:

Consideration

	\$'000
Shares issued (51,930,026 × \$1.85) in Monash IVF Group Ltd	96,071
Cash paid	203,055
Total	299,126

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

6 REVENUE

	Consolidated	
	2014 \$'000	2013 \$'000
Service revenue	110,857	96,042
Other revenue	3,155	556
Total revenue	114,012	96,598

7 OTHER EXPENSES

	Consolidated	
	2014 \$'000	2013 \$'000
Restructure costs	2,057	–
Other expenses	2,523	1,248
Total other expenses	4,580	1,248

8 NET FINANCE COSTS

	Consolidated	
	2014 \$'000	2013 \$'000
Finance income		
Interest income	1,396	963
Finance expense		
Interest expense	(21,511)	(34,765)
Amortisation of bank fees ⁽¹⁾	(3,387)	(606)
Finance leases	(23)	(16)
Total finance expense	(24,921)	(35,387)
Net finance costs	(23,525)	(34,424)

(1) Includes write-off of fees on borrowings made during the year and repaid by year-end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

9 INCOME TAX AND DEFERRED TAX**(a) Amounts recognised in profit or loss**

	Consolidated	
	2014 \$'000	2013 \$'000
Current tax	2,358	2,673
Deferred tax	(9,125)	7,749
Total income tax expense	(6,767)	10,422
Deferred income tax expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(46)	1,030
(Decrease)/increase in deferred tax liabilities	(9,079)	6,719
Total deferred tax expense	(9,125)	7,749
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	(1,915)	(2,303)
Tax at the Australian tax rate of 30% (2013: 30%)	(575)	(691)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible interest	1,637	2,629
Effect of tax rates in foreign jurisdiction	(102)	38
Derecognition of tax losses	922	3,102
TOFA adjustments	(368)	2,691
Intangible assets tax consolidation adjustment	(3,212)	-
Non-assessable interest income	(4,590)	-
Other items	(1,202)	2,380
Under/(over) provision of previous year	723	273
Income tax expense	(6,767)	10,422

(b) Amounts recognised directly in OCI

In thousands of dollars	2014			2013		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Foreign operations – foreign currency translation differences	(59)	-	(59)	-	-	-
Cash flow hedges	280	(84)	196	1,951	(585)	1,366
	221	(84)	137	1,951	(585)	1,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

(c) Movement in deferred tax balances

2014

In thousands of dollars	Deferred tax asset at 1 July 2013	Deferred tax liability at 1 July 2013	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	Deferred tax asset at 30 June 2014	Deferred tax liabilities at 30 June 2014
Property, plant and equipment	461	–	(876)	–	–	–	(415)
Intangible assets	–	(9,828)	3,884	–	–	–	(5,944)
IPO transaction costs	–	–	2,474	–	2,023	4,497	–
Derivatives	11	–	–	6	–	17	–
Trade payables and provisions	1,418	–	16	–	–	1,434	–
Loans and borrowings	142	(50)	(92)	–	–	–	–
Employee benefits	591	–	1,288	–	–	1,879	–
Other items	2,014	(4,754)	2,740	–	–	–	–
Carryforward tax loss	1,398	–	(309)	–	–	1,089	–
Tax liabilities/(assets) before set-off	6,035	(14,632)	9,125	6	2,023	8,916	(6,359)
Set off tax	(5,553)	5,553	–	–	–	(6,359)	6,359
Net tax liabilities/(assets)	482	(9,079)	–	–	–	2,557	–

2013

In thousands of dollars	Deferred tax asset at 1 July 2012	Deferred tax liability at 1 July 2012	Recognised in profit or loss	Recognised in OCI	Deferred tax asset at 30 June 2013	Deferred tax liabilities at 30 June 2013
Property, plant and equipment	961	–	(500)	–	461	–
Intangible assets	–	(9,999)	171	–	–	(9,828)
Derivatives	313	–	–	(302)	11	–
Accrued expenses	1,095	–	323	–	1,418	–
Loans and borrowings	306	(38)	(176)	–	142	(50)
Employee benefits	422	–	169	–	591	–
Other items	1,166	(286)	(3,620)	–	2,014	(4,754)
Carryforward tax loss	5,513	–	(4,115)	–	1,398	–
Tax liabilities/(assets) before set-off	9,776	(10,323)	(7,748)	(302)	6,035	(14,632)
Set off tax	(7,963)	7,963	–	–	(5,553)	5,553
Net tax liabilities/(assets)	1,813	(2,360)	–	–	482	(9,079)

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

10 OPERATING SEGMENTS

Identification of reportable operating segments

The two geographic segments being Australia and International reflect Monash IVF Group's reporting structure to the Chief Executive Officer, its chief operating decision maker (CODM). Monash IVF Group considers that the two geographic segments are appropriate for segment reporting purposes under AASB 8 "Operating Segments". These segments comprise the following operations:

- Monash IVF Group Australia: provider of Assisted Reproductive Services and other related services.
- Monash IVF Group International: provider of Assisted Reproductive Services in Malaysia and party to a co-operative agreement with an Assisted Reproductive Service provider in China.

Segment revenue

The revenue from external parties is measured in the same way as in the profit or loss. If any sales occur between segments, they are carried out at arm's length and are eliminated on consolidation.

Segment EBITDA

Segment performance is measured based on segment EBITDA as included in the internal management reports that are reviewed by the Group's CODM. Segment EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within the industry. Any intersegment pricing is determined on an arm's length basis.

Segment assets and liabilities

Segment assets and liabilities are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment, physical location of the asset and liabilities residing within each geographic segment.

Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's CODM, is used to measure performance because management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries.

Given the nature of services provided, no segment is reliant on any major customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Segment results

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2014.

2014	Monash IVF Group Australia \$'000	Monash IVF Group International \$'000	Total reportable segments \$'000	Inter-segment eliminations/unallocated \$'000	Total \$'000
Revenue					
External revenue	106,305	4,552	110,857	–	110,857
Intersegment sales	–	–	–	–	–
Total Revenue	106,305	4,552	110,857	–	110,857
Other income	3,155	–	3,155	–	3,155
Total revenue and other income	109,460	4,552	114,012	–	114,012
Segment EBITDA	34,714	2,068	36,782	–	36,782
Initial Public Offering transaction costs	(12,281)	–	(12,281)	–	(12,281)
Depreciation and amortisation expense	(2,835)	(56)	(2,891)	–	(2,891)
Interest revenue	1,372	24	1,396	–	1,396
Interest expense	(21,534)	–	(21,534)	–	(21,534)
Amortisation of bank facility fees	(3,387)	–	(3,387)	–	(3,387)
(Loss)/profit before income tax expense	(3,951)	2,036	(1,915)	–	(1,915)
Income tax benefit/(expense)	7,264	(497)	6,767	–	6,767
Profit for the year	3,313	1,539	4,852	–	4,852
Segment assets	240,798	5,560	246,358	–	246,358
Segment liabilities	(121,401)	(137)	(121,538)	–	(121,538)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

10 OPERATING SEGMENTS continued**Segment results** continued

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2013.

2013	Monash IVF Group Australia \$'000	Monash IVF Group International ⁽¹⁾ \$'000	Total reportable segments \$'000	Inter-segment eliminations/ unallocated \$'000	Total \$'000
Revenue					
External revenue	94,756	1,842	96,598	–	96,598
Intersegment sales	–	–	–	–	–
Total Revenue	94,756	1,842	96,598	–	96,598
Other income	–	–	–	–	–
Total revenue and other income	94,756	1,842	96,598	–	96,598
Segment EBITDA	35,931	815	36,746	–	36,746
Depreciation and amortisation expense	(4,601)	(24)	(4,625)	–	(4,625)
Interest revenue	963	–	963	–	963
Interest expense	(34,757)	(24)	(34,781)	–	(34,781)
Amortisation of bank facility fees	(606)	–	(606)	–	(606)
(Loss)/profit before income tax expense	(3,070)	767	(2,303)	–	(2,303)
Income tax expense	(10,222)	(200)	(10,422)	–	(10,422)
(Loss)/profit for the year	(13,292)	567	(12,725)	–	(12,725)
Segment assets	259,504	6,109	265,613	–	265,613
Segment liabilities	(312,304)	(228)	(312,532)	–	(312,532)

(1) Monash IVF Group International includes the international operation which was acquired on 1 January 2013. Accordingly, performance of this segment reflects trading between 1 January and 30 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

11 EARNINGS PER SHARE

	Consolidated	
	2014 Cents per share	2013 Cents per share
Earnings per share		
Basic earnings per share ⁽²⁾	2.0	(30.0)
Diluted earnings per share ⁽²⁾	2.0	(30.0)

	2014 \$'000	2013 \$'000
Profit attributable to ordinary shareholders		
Profit after income tax attributable to the ordinary shareholders used in calculating basic and diluted earnings per share	2,581	(14,856)

	2014 Number	2013 Number
Weighted average number of shares (basic)		
Issued ordinary shares at 1 July	49,513,671	49,513,671
Effect of shares issued ⁽¹⁾	76,398,391	–
Adjustments for calculation of diluted earnings per share	–	–
Weighted average number of ordinary shares (diluted) at 30 June	125,912,062	49,513,671

(1) Effect of shares issued reflect the weighted average number of shares issued in Healthbridge Enterprises Pty Ltd and Monash IVF Group Ltd during the year.

(2) Had the weighted average number of shares been adjusted to reflect the change in the Group's capital structure (231,081,089 ordinary shares) been effective from the beginning of the year, basic and diluted earnings per share for 2014 would be 1.1 cents per share.

Basic earnings per share

The calculation of basic earnings per share has been based on profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted earnings per share

The calculation of diluted earnings per share has been based on profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

12 CASH AND CASH EQUIVALENTS

	Consolidated	
	2014 \$'000	2013 \$'000
Cash at bank and in hand	8,227	7,485
Short-term bank deposits	559	33,147
Total cash and cash equivalents	8,786	40,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

13 TRADE AND OTHER RECEIVABLES

	Consolidated	
	2014 \$'000	2013 \$'000
Current		
Trade receivables	2,926	2,653
Provision for impairment	(301)	(282)
Other debtors	239	287 ⁽¹⁾
Accrued income	105	516
Total current trade and other receivables	2,969	3,174
Non-current		
Other receivables and debtors	448	3,198
Total trade and other receivables	3,417	6,372

(1) Some elements of the 'other debtors' comparative have been offset to the extent revenue has been earned. This adjustment has no impact on the comparative net current asset position and is not considered material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

14 PROPERTY, PLANT AND EQUIPMENT

In AUD	Consolidated			
	Land ⁽¹⁾ \$'000	Building ⁽¹⁾ \$'000	Plant and equipment \$'000	Total \$'000
Cost				
Balance at 1 July 2012	7,790	27,914	24,506	60,210
Additions	–	–	3,297	3,297
Disposals	(7,790)	(27,914)	(5,124) ⁽²⁾	(40,828)
Balance at 30 June 2013	–	–	22,679	22,679
Additions through business combinations			962	962
Additions	–	–	3,821	3,821
Disposals	–	–	(18)	(18)
Balance at 30 June 2014	–	–	27,444	27,444
Depreciation and impairment losses				
Balance at 1 July 2012	–	(14,890)	(15,420)	(30,310)
Depreciation for the year	–	(518)	(2,870)	(3,388)
Disposals	–	15,408	2,340 ⁽²⁾	17,748
Balance at 30 June 2013	–	–	(15,950)	(15,950)
Depreciation for the year	–	–	(2,367)	(2,367)
Disposals	–	–	4	4
Balance at 30 June 2014	–	–	(18,313)	(18,313)
Carrying amount				
At 30 June 2013	–	–	6,729	6,729
At 30 June 2014	–	–	9,131	9,131

(1) Relates to a discontinued operation that ceased to operate during the comparative period.

(2) Includes plant and equipment disposed relating to the discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

15 INTANGIBLE ASSETS

Reconciliation of the carrying amount is set out below:

Cost	Goodwill \$'000	Software \$'000	Trade-mark \$'000	Public Contract \$'000	Patient Relation- ships \$'000	Employ- ment Contracts \$'000	Total \$'000
Balance at 1 July 2012	183,017	8,594	19,845	688	6,977	1,922	221,043
Additions	–	41	–	–	–	–	41
Acquisition through business combination	5,149	–	–	–	–	–	5,149
Balance at 30 June 2013	188,166	8,635	19,845	688	6,977	1,922	226,233
Balance at 1 July 2013	188,166	8,635	19,845	688	6,977	1,922	226,233
Additions	–	–	–	–	–	–	–
Acquisition through business combination	11,069	–	–	–	–	–	11,069
Balance at 30 June 2014	199,235	8,635	19,845	688	6,977	1,922	237,302
Amortisation and impairment losses							
Balance at 1 July 2012	(1,549)	(4,767)	–	(512)	(6,977)	(1,854)	(15,659)
Amortisation for the year	–	(1,237)	–	(138)	–	(68)	(1,443)
Impairment loss	–	–	–	–	–	–	–
Balance at 30 June 2013	(1,549)	(6,004)	–	(650)	(6,977)	(1,922)	(17,102)
Balance at 1 July 2013	(1,549)	(6,004)	–	(650)	(6,977)	(1,922)	(17,102)
Amortisation for the year	–	(486)	–	(38)	–	–	(524)
Impairment loss	–	–	–	–	–	–	–
Balance at 30 June 2014	(1,549)	(6,490)	–	(688)	(6,977)	(1,922)	(17,626)
Carry amounts							
at 30 June 2013	186,617	2,631	19,845	38	–	–	209,131
at 30 June 2014	197,686	2,145	19,845	–	–	–	219,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Impairment testing

The following cash generating units were tested for impairment during the 2014 financial year:

	2014 \$'000	2013 \$'000
Goodwill allocated to:		
Monash IVF Group (Australia)	192,537	–
Monash IVF Group (International)	5,149	5,149
Repromed Finance Pty Ltd	–	81,435
Monash IVF Holdings Pty Ltd	–	100,033
	197,686	186,617

During the 2014 financial year, the Group changed its cash generating units (CGUs), which were subject to impairment testing, due to the restructure of the Group as detailed in Note 5. Repromed Finance Pty Ltd and Monash IVF Holdings Pty Ltd are now tested as part of the Monash IVF Group (Australia) CGU as this represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

The recoverable amount of each CGU was calculated using a value in use calculation determined by discounting the future cash flows generated from each CGU. From impairment testing performed, the recoverable amount was determined to be higher than the carrying amount and any reasonable possible change to relevant assumptions and inputs would not result in the recoverable amount being lower than the carrying amount. The following key assumptions and inputs were utilised for the impairment testing:

- The discount rate was a pre-tax measure based on the rate of 10 year Australian Government bonds issued by the Australian Government in the relevant market, adjusted for a risk premium to reflect the increased risk of investing in equities generally and the systemic risk of the specific CGU. A pre-tax discount rate of 10.5 – 11.0% (2013: 12.5%) was applied in determining the recoverable amount. The discount rate was estimated based on past experience, and the industry average weighted cost of capital.
- Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity of 3.0% (2013: 3.0%) has been determined using the expected consumer price index for the relevant jurisdiction. Budgeted EBIT was based on the expectation of future outcomes taking into account past experience, adjusted for the anticipated revenue growth.

16 TRADE AND OTHER PAYABLES

	Consolidated	
	2014 \$'000	2013 \$'000
Current		
Trade payables	1,332	1,161
IPO accrued expenses	3,689	–
Accrued expenses	4,525	4,443
Prepaid income	4,530	4,003 ⁽¹⁾
Contingent consideration	230	
Other current liabilities	3,638	4,409
Total current trade and other payables	17,944	14,016

(1) Some elements of the 'other debtors' comparative have been offset to the extent revenue has been earned. This adjustment has no impact on the comparative net current asset position and is not considered material.

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

17 EMPLOYEE BENEFITS

The aggregate amount of employee benefits is comprised of:

	Consolidated	
	2014 \$'000	2013 \$'000
Current		
Current liability for long service leave	2,818	2,351
Current liability for annual leave	2,587	2,291
Total current employee benefits	5,405	4,642
Non-current		
Non-current liability for long service leave	859	656
Total employee benefits	6,264	5,298

The aggregate of employee entitlement provision is \$6.3m (2013: \$5.3m). Employee benefits incurred during the year were \$29.7m (2013: \$26.9m).

18 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Foreign exchange risk

This note presents information about the Group's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk management policies are in place to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its recruitment, training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, being patients.

Credit risk is managed on at a business unit level and reviewed regularly by the administrative/accounts receivable function. Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and includes the utilisation of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposure against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment.

Payment reminder notices are issued to customers with outstanding balances at 30, 60 and 90 days. After which, collection of this debt is handled by a collection agency.

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the group. The trade receivables balance at reporting date does not include any counterparties with external credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

AGEING OF TRADE RECEIVABLES

	Consolidated	
	2014 \$'000	2013 \$'000
Past due 0-30 days	1,114	1,533
Past due 31-120 days	1,229	672
Past due more than 121 days	583	448
Provision for impairment	(301)	(282)
	2,625	2,371

Other financial asset credit exposure relates to the following:

	Consolidated	
	2014 \$'000	2013 \$'000
Accrued income	105	516
Other debtors	687	3,485
	792	4,001

CASH AND CASH EQUIVALENTS

The Group limits its exposure to credit risk on liquid funds because the counterparties engaged are banks with high credit ratings assigned by international credit agencies. At balance date, the Group had \$8,786,000 in short-term deposits or cash at bank with 'A' rated or higher Australian banks.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- Preparing forward-looking financial analysis in relation to its operational, investing and financing activities;
- Monitoring undrawn credit facilities;
- Obtaining funding from a variety of sources;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

18 FINANCIAL RISK MANAGEMENT continued

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

	Carrying amount \$'000	Contractual cash flows \$'000	Within 1 year \$'000	1-5 years \$'000	Over 5 years \$'000
2014					
Non-derivative financial liabilities					
External loans	96,000	(109,485)	(4,520)	(104,965)	–
Trade and other payables	13,414	(13,414)	(13,414)	–	–
Derivative financial liabilities					
Interest rate swaps	56	(69)	(23)	(46)	–
	109,470	(122,968)	(17,957)	(105,011)	–
2013					
Non-derivative financial liabilities					
External loans	103,030	(111,973)	(111,973)	–	–
Promissory notes	138,701	(250,752)	–	(250,752)	–
Mandatory Redeemable preference shares	42,479	(66,780)	–	(24,844)	(41,936)
Trade and other payables	10,013	(10,013)	(10,013)	–	–
Derivative financial liabilities					
Interest rate swaps	153	(153)	(153)	–	–
	294,376	(439,671)	(122,139)	(275,596)	(41,936)

Foreign exchange risk

The Group is not exposed to material levels of foreign currency risk at the reporting date or during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Market risk – Interest rate risk

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2014 approximately 52% of the interest rate exposure is fixed (2013: 65%). This is achieved by entering into interest rate swaps to mitigate interest rate risk on floating rate debt. Interest rate swaps are not entered into for trading purposes and are not classified as held for trading.

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows including the impact of hedging instruments:

	Consolidated	
	2014 \$'000	2013 \$'000
Fixed rate instruments		
Financial assets	559	4,356
Financial liabilities	(50,000)	(248,150) ⁽¹⁾
	(49,441)	(243,794)
Variable rate instruments		
Financial assets	8,227	40,632
Financial liabilities	(46,000)	(36,061) ⁽¹⁾
	(37,773)	4,571

(1) The comparative information above has been adjusted to reflect changes to the allocation of items in the current year. This change is expected to provide greater transparency for comparative purposes.

Cash flow sensitivity analysis for variable rate instruments

A reasonable possible change of a 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This assumes that all other variables remain constant.

	Profit or loss	
	100 bps increase \$'000	100 bps decrease \$'000
30 June 2014		
Financial assets	82	(82)
Financial liabilities	(460)	460
30 June 2013		
Financial assets	406	(406)
Financial liabilities	(361)	361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

18 FINANCIAL RISK MANAGEMENT continued**Market risk – Price risk**

The Group is exposed to legislative and/or Government policy changes to funding for IVF and related healthcare services which may impact patient out-of-pocket costs resulting in potentially lower demand.

Fair values**(A) Accounting classifications and fair values**

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2014	Carrying Amount \$'000	Fair Value			Total \$'000
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets not measured at fair value					
Trade and other receivables ⁽¹⁾	5,354	–	–	–	–
Cash and cash equivalents ⁽¹⁾	8,786	–	–	–	–
	14,140	–	–	–	–
Financial liabilities measured at fair value					
Interest rate swaps for hedging	56	–	56	–	56
Contingent consideration	1,230	–	–	1,230	1,230
	1,286	–	56	1,230	1,286
Financial liabilities not measured at fair value					
Secured bank loans	96,000	–	96,000	–	96,000
Trade and other payables ⁽¹⁾	17,944	–	–	–	–
	113,944	–	96,000	–	96,000

(1) The Group has not disclosed the fair values for financial assets such as short-term trade receivables and payables, because these carrying amounts are a reasonable approximation of fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

2013	Carrying Amount \$'000	Fair Value			Total \$'000
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Financial assets not measured at fair value					
Trade and other receivables ⁽¹⁾	7,870	–	–	–	–
Cash and cash equivalents ⁽¹⁾	40,632	–	–	–	–
	48,502	–	–	–	–
Financial liabilities measured at fair value					
Interest rate swaps for hedging	153	–	153	–	153
Contingent consideration	–	–	–	–	–
	153	–	153	–	153
Financial liabilities not measured at fair value					
Secured bank loans	103,030	–	103,030	–	103,030
Convertible notes	138,701	–	138,701	–	138,701
Redeemable preference shares	42,479	–	42,479	–	42,479
Trade and other payables ⁽¹⁾	14,016	–	–	–	–
	298,226	–	284,210	–	284,210

(1) The Group has not disclosed the fair values for financial assets such as short-term trade receivables and payables, because these carrying amounts are a reasonable approximation of fair values.

(B) Measurement of fair values**(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent consideration	<i>Discounted cash flows:</i> The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the number of IVF cycles performed during the 2014 and 2015 financial years.	<ul style="list-style-type: none"> Number of IVF cycles 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> the risk-adjusted discount rate were lower (higher) the number of IVF cycles were achieved (not achieved)
Interest rate swaps	<i>Market comparison technique:</i> The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments	Not applicable	Not applicable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

18 FINANCIAL RISK MANAGEMENT continued**Fair values** continued**(B) Measurement of fair values** continued**(ii) Level 3 fair values**

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

In thousands of dollars	Contingent consideration
Balance at 1 July 2012	–
Assumed in a business combination	–
Gain included in OCI	
– Net change in fair value	–
Purchases	–
Balance at 30 June 2013	–
Balance at 1 July 2013	–
Assumed in a business combination	1,400
Gain included in 'finance costs'	
– Net change in fair value (unrealised)	(170)
Gain included in OCI	
– Net change in fair value (unrealised)	–
Transfers out of Level 3	–
Balance at 30 June 2014	1,230

Sensitivity analysis

For the fair values of contingent consideration, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	Profit or loss	
	Increase \$'000	Decrease \$'000
30 June 2014		
Movement in number of patient treatments target (10% movement)	–	(290)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

19 BORROWINGS

This note provides information about the contractual terms of the group's interest-bearing loans and borrowings which are measured at amortised cost.

	Consolidated	
	2014 \$'000	2013 \$'000
Current borrowings		
Derivatives	56	153
Commercial loans	–	103,031
Capitalised finance facility fees	–	(415)
	56	102,769
Non-current borrowings		
Commercial loans	96,000	–
Capitalised finance facility fees	(514)	–
Promissory notes	–	138,701
Redeemable preference shares	–	42,479
Derivatives	–	37
	95,486	181,217

On 26 June 2014, the Group entered into new banking facilities resulting in repayment of existing commercial loans existing at the time. The new banking facilities comprise:

- a \$100m three-year revolving cash advance facility;
- a \$5m three-year revolving working capital facility.

In addition, the new banking facilities include an uncommitted cash advance revolving facility of up to \$20m that may be added to the existing facility documents. As at 30 June 2014, available and committed undrawn borrowings were \$9m under the new banking facilities.

The new banking facilities are secured via a first ranking security over substantially all of the Group's entities which hold not less than 85% of the Group's assets and generating not less than 85% of the Group's EBITDA.

The Group is subject to certain financial undertakings under the new banking facilities which are to be tested at 31 December and 30 June. As at 30 June 2014, the Group is compliant with its financial undertakings and expects to remain in compliance with these financial undertakings.

As at 30 June 2014, the Group had \$0.9m bank guarantees in place (2013: \$0.6m).

	Currency	Nominal interest rate	Year of maturity	30 June 2014	
				Face value \$'000	Carrying amount \$'000
Commercial loans	AUD	4.71%	2017	96,000	96,000
Total interest-bearing liabilities				96,000	96,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

19 BORROWINGS continued

	Currency	Nominal interest rate	Year of maturity	30 June 2013	
				Face value \$'000	Carrying amount \$'000
Commercial loans	AUD	8%	2013	33,030	33,030
Commercial loans	AUD	9%	2013	70,000	70,000
Promissory notes	AUD	14%	2017	138,701	138,701
Redeemable preference shares	AUD	14%	2017	22,317	22,317
Redeemable preference shares	AUD	16%	2014	20,162	20,162
Total interest-bearing liabilities				284,210	284,210

20 CONTRIBUTED EQUITY

	Number of shares issued	\$'000
Opening balance (1/7/12)	49,513,671	49,514
Issued capital	–	–
Closing balance (30/6/13)	49,513,671	49,514
Opening balance (1/7/13)	49,513,671	49,514
Issued in exchange for redeemable preference shares	5,315,595	5,345
Issued in exchange for promissory notes	71,806,539	72,207
Issued to minority interest	33,283,463	33,469
Issued in business combination	967,195	973
Issued for cash	803,185	807
Shares issued from re-organisation	231,081,089	427,500
Re-organisation adjustment ⁽¹⁾	(161,689,648)	(162,315)
Share issued costs	–	(4,934)
Closing balance (30/6/14)	231,081,089	422,566

(1) In accordance with transactions under common control, issued capital prior to the common control transaction represents the equity of the legal subsidiary, Healthbridge Enterprises Pty Ltd. Subsequent to the common control transaction, issued capital represents the issued capital of the legal parent of the Group, Monash IVF Group Limited.

In October 2013, Healthbridge Enterprises Pty Ltd issued 110,405,597 ordinary shares at \$1.006 per share. These shares were effectively transferred to acquire NCI, MRPS and Promissory Note holdings within the Group's subsidiaries.

Additionally, 803,185 ordinary shares were issued for cash at \$1.006 per share.

In May 2014, as detailed in Note 22, Healthbridge Enterprises Pty Ltd issued 967,195 ordinary shares as consideration for the acquisition of Palantrou Pty Ltd.

In June 2014, as discussed in Note 5, Monash IVF Group Limited issued 231,081,089 ordinary shares via an initial public offering. All shares are fully paid. No ordinary shares have been issued under the shares options plan.

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

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. Ordinary shares entitle the holder to one vote, either in person or by proxy, at a meeting of the Company. The fully paid ordinary shares have no par value.

Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future growth of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital structure. In order to maintain an optimal capital structure, the Group may amend the amount of dividends declared and paid, return capital to shareholders or increase borrowings or equity to fund growth and future acquisitions.

Escrow arrangements

The following ordinary shareholders have agreed to enter into voluntary escrow arrangements in relation to certain ordinary shares they hold in Monash IVF Group Limited. An 'escrow' is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the shares concerned for the period of the escrow, subject to exceptions set out in the escrow arrangement.

	Number of Shares subject to escrow (M)	Escrowed Shares (as a % of Shares on issue)
Doctors ⁽¹⁾	25.9	11.20%
Management ⁽²⁾	1.8	0.80%
Ironbridge	11.6	5.00%
Total	39.3	17.00%

(1) Includes 1.3m Shares subject to escrow to be held by Richard Henshaw (Executive Director)

(2) Includes 0.9m Shares subject to escrow to be held by James Thiedeman (CEO) and 0.1m Shares subject to escrow to be held by Rodney Fox (CFO).

Doctors

The escrow applied to a Doctor was calculated by reference to the aggregate value of that person's pre-reorganisation equity interests in Healthbridge Enterprises Pty Ltd as follows:

- (a) Shares equivalent to 10% of a Doctor's interest prior to re-organisation are held in short-term escrow, with 3.33% being released from escrow on the first trading day in shares following the announcement to the ASX by the Company of its preliminary final report for FY2015. Following each of the two subsequent announcements of the Company's preliminary final report (up to and including the preliminary final report for FY2017), shares equivalent to a further 3.33% per year of a Doctor's interest prior to re-organisation will be released (if not otherwise released) from escrow. All of this short-term escrow can be released prematurely where the Doctor becomes a 'good leaver' (as described below).
- (b) Shares equivalent to 20% of a Doctor's interest prior to re-organisation will be released when the Doctor reaches the age of 63. These shares may be otherwise released from escrow in the following circumstances:
 - for Doctors who are aged 63 or older at the time of re-organisation or who turn 63 within two years of Completion, these shares will be released from escrow on the second anniversary of re-organisation; or
 - where a Doctor becomes a 'relocated leaver' (as described below), these shares will be released from escrow five years after the date that they become a 'relocated leaver'; or
 - where a Doctor dies or leaves the Group as a result of becoming permanently disabled or seriously disabled, these shares will be released from escrow on the date of the relevant occurrence (as resolved by the Board acting reasonably); or
 - if the Board determines to release the shares from escrow earlier.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

20 CONTRIBUTED EQUITY continued

Escrow arrangements continued

Doctors continued

(c) Shares equivalent to the final 20% of a Doctor's interest prior to re-organisation will be released from escrow:

- on retirement by the Doctor from the ARS industry (provided a Doctor must have used their best endeavours to transition their practice to another Doctor to the satisfaction of the Board); or
- if the Doctor becomes a 'good leaver' or a 'relocated leaver' (as described below); or
- five years after the Doctor leaves Monash IVF Group in other circumstances.

Doctors will be able to sell any non-escrowed shares at any time following re-organisation, subject to complying with insider trading restrictions and the Group's Securities Trading Policy.

The escrow arrangements describe the circumstances in which a Doctor is a 'good leaver' or a 'relocated leaver' in the following manner:

(a) A Doctor is a 'good leaver' where:

- they leave the Group as a result of death, serious disability or permanent incapacity through ill health (as determined by the Group's Board, acting reasonably); or
- they or the Group terminates the Doctor's contract in specific circumstances; or
- the Board determines, in its discretion, that the Doctor is a 'good leaver'.

(b) A Doctor is a 'relocated leaver' if they terminate their contract and the Board is satisfied that:

- the Doctor genuinely intends to relocate permanently to a place which is more than 100 km from any clinic operated by the Group or any of its subsidiaries; and
- the Doctor also intends to provide Assisted Reproductive Services in the place the Doctor is relocating to; and
- the Doctor has used their best endeavours to transition their practice to another Doctor at the Group.

Management

For management shareholders, shares equivalent to 50% of their interest prior to re-organisation held by or on behalf of the member of management is subject to escrow until the first trading day in shares following an announcement to the ASX by the Group of its preliminary final report for FY2015.

Ironbridge

For Ironbridge Funds, 11.6m shares are subject to escrow until the first trading day in shares following an announcement to the ASX by the Group of its preliminary final report for FY2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

21 RESERVES

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income.

Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Dividends

On 24 June 2014, prior to the re-organisation as detailed in Note 5, the Directors of Healthbridge Enterprises Pty Ltd declared a \$25,223,579 fully franked dividend (15.6 cents per ordinary share) to shareholders which was settled on 26 June 2014.

Franking credits available at 30 June 2014 were \$110,000 (2013: \$8,716,000).

Other equity reserve

	Consolidated	
	2014 \$'000	2013 \$'000
Opening balance	–	–
Valuation of issued capital prior to acquisition	(162,315)	–
Shares issued to pre-acquisition shareholders as consideration	96,071	–
Cash paid to pre-acquisition shareholders as consideration	203,055	–
Closing balance	136,811	–

Due to the acquisition of Healthbridge Enterprises Pty Ltd being accounted for as a common control transaction (see Note 5), the other equity reserve reflects the consideration paid to acquire Healthbridge Enterprises Pty Ltd compared to the valuation of the issued capital of Healthbridge Enterprises Pty Ltd at the initial public offering date.

22 BUSINESS ACQUISITION

Acquisition of subsidiary – KL Fertility & Gynaecology Centre SDN BHD

On 1 January 2013 the Group obtained control of KL Fertility & Gynaecology Centre SDN. BHD., a company incorporated in Malaysia with principal activities to provide Assisted Reproductive Technology (ART) services, gynaecological services, In-Vitro Fertilisation (IVF) laboratory services, specialist consultancy services and general clinical services to patients at their own and other medical centres and hospitals, by acquiring 65 percent of the shares and voting interests in the company. The vendor being the primary Doctor at the Clinic retained a 35% interest in the business.

Taking control of KL Fertility & Gynaecology Centre SDN. BHD (KLFGC). has enabled the Group to expand the IVF business within South-East Asia and in particular this holds strong growth opportunities and enables KLFGC to benefit from many aspects of the Australian IVF business including scientific methods and protocols.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

22 BUSINESS ACQUISITION continued

Acquisition of subsidiary – KL Fertility & Gynaecology Centre SDN BHD continued

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

Consideration	\$'000
Cash ⁽¹⁾	4,188
Deferred cash payment ⁽²⁾	1,032
Total	5,220

(1) Paid on completion.

(2) Paid in February 2014.

Identifiable assets required and liabilities assumed	\$'000
Cash	50
Inventory	21
Receivables	3
Other current assets	35
Property, plant and equipment	83
Tax assets and liabilities	(67)
Trade and other payables	(17)
Net assets acquired	108

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	\$'000
Total consideration transferred	5,220
Non-controlling interests based on their proportionate interest in the recognised amounts of the assets and liabilities of KL Fertility & Gynaecology Centre SDN. BHD.	38
less Fair value of identifiable net assets	108
	5,150

The Group incurred acquisition related costs of \$0.2m relating to external legal fees and due diligence costs. These costs have been included in 'other expenses' in the Group's statement of profit or loss and other comprehensive income.

Acquisition of subsidiary – Yoncat Pty Ltd

On 16 July 2013 the Group obtained control of Yoncat Pty Ltd trading as Reproductive Medicine Albury by acquiring 100% percent of the shares and voting interests in the company. Yoncat Pty Ltd's principal activities are the provision of Assisted Reproductive Technology ("ART") services and specialist consultancy services to patients in Albury, New South Wales.

Taking control of Yoncat Pty Ltd has enabled the Group to further expand the offering of its ART services into regional Victoria and south-west New South Wales and enables the Group to service the Victoria New South Wales border region in conjunction with the service provided from Mildura where the Group operates a clinic.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date. All amounts are provisional at the balance sheet date.

Consideration	\$'000
Cash ^(a)	4,010
Deferred cash payment ^(b)	1,600
Contingent consideration on earn out agreement: June 2014 ^(c)	400
Contingent consideration on earn out agreement: June 2015 ^(d)	1,000
Total	7,010

(a) Paid on completion.

(b) Paid in May 2014. The cash payment had no conditions attached.

(c) If the acquiree meets certain performance hurdles for the year ended 30 June 2014, the vendor is entitled to a payment of up to \$400,000. The minimum amount payable is nil.

(d) If the acquiree meets certain performance hurdles for the year ended 30 June 2015, the vendor is entitled to a payment of up to \$1,000,000. The minimum amount payable is \$600,000.

Identifiable assets acquired and liabilities assumed	\$'000
Property, plant and equipment	103
Prepayments	34
Cash and cash equivalents	–
Bank overdraft	(21)
Employee provisions	(165)
Trade and other payables	(20)
Total identifiable net assets	(69)

The above identifiable assets acquired and liabilities assumed have been determined at fair value. The Group is currently in the process of finalising the fair values of the assets and liabilities acquired. As a result, the fair values provided above are provisional and will be subject to finalisation during the period up to twelve months from the acquisition date.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	\$'000
Total consideration transferred	7,010
less Fair value of identifiable assets	(69)
Goodwill	7,079

The Group incurred acquisition related costs of \$0.1m relating to external legal fees and due diligence costs. These costs have been included in 'other expenses' in the Group's statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

22 BUSINESS ACQUISITION continued

Acquisition of subsidiary - Palantrou Pty Ltd

On 2 May 2014 the Group acquired Palantrou Pty Ltd, a company incorporated in Australia, trading as Next Generation Fertility. Its principle activities is to provide Assisted Reproductive Technology (ART) services, gynaecological services, In-Vitro Fertilisation (IVF) laboratory services, specialist consultancy services and general clinical services to patients. The acquisition will enable the Group to expand its business in New South Wales.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date. All amounts are provisional at the balance sheet date.

Consideration	\$'000
Cash	3,598
Healthbridge Enterprises Pty Ltd Ordinary Shares	973
Healthbridge Enterprises Pty Ltd Mandatory Redeemable Preference Shares	227
Total	4,798

Identifiable assets acquired and liabilities assumed	\$'000
Cash and cash equivalents	183
Trade and other receivables	268
Property, plant and equipment	604
Other intangibles	255
Other current assets	86
Deferred tax balances	103
Trade and other payables	(437)
Tax refundable	93
Employee entitlements	(346)
Total identifiable net assets	809

The above identifiable assets acquired and liabilities assumed have been determined at fair value. The Group is currently in the process of finalising the fair values of the assets and liabilities acquired. As a result, the fair values provided above are provisional and will be subject to finalisation during the period up to twelve months from the acquisition date.

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	\$'000
Total consideration transferred	4,798
less Fair value of identifiable assets	809
Goodwill	3,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Impact on profitability

The Yoncat Pty Ltd and Palantrou Pty Ltd acquisitions during the year contributed additional combined revenues and additional combined operating profit to the Group of \$4.4m and \$1.1m respectively.

Acquisition of non-controlling interests

Monash IVF Holdings Pty Ltd

In October 2013, the Group bought out the remaining 30.6% non-controlling interests in Monash IVF Holdings Pty Ltd for \$31.15m by issuing Ordinary Shares equivalent to this value in Healthbridge Enterprises Pty Ltd. This acquisition increased the Group's ownership in Monash IVF Holdings Pty Ltd to 100% (30 June 2013: 69.4%).

The carrying amount of Monash IVF Holdings Pty Ltd's net assets in the Group's financial statements on the date of the acquisition was \$39.6m. Amounts recorded in non-controlling interest have been transferred to retained earnings.

Wesley Monash IVF Pty Ltd

In December 2013, Monash IVF Pty Ltd bought out the remaining 40% in Wesley Monash IVF Pty Ltd for \$1.31m cash. Coupled with the above acquisition of the remaining non-controlling interests in Monash IVF Holdings Pty Ltd, this acquisition increased the Group's ownership in Wesley Monash IVF Pty Ltd to 100% (30 June 2013: 41.6%).

The carrying amount of Wesley Monash IVF Pty Ltd's net assets in the Group's financial statements on the date of the acquisition was \$0.1m. Amounts recorded in non-controlling interest have been transferred to retained earnings.

Monash Ultrasound Pty Ltd

In October 2013, Monash IVF Pty Ltd also bought out the remaining 35% non-controlling interests in Monash Ultrasound Pty Ltd for \$3.76m. Consideration comprised the issuing of \$2.24m of Ordinary Shares and \$1.52m of Mandatory Redeemable Preference Shares in Healthbridge Enterprises Pty Ltd. Coupled with the above acquisition of the remaining non-controlling interests in Monash IVF Holdings Pty Ltd, this acquisition increased the Group's ownership in Monash Ultrasound Pty Ltd to 100% (30 June 2013: 51.7%).

The carrying amount of Monash Ultrasound Pty Ltd's net assets in the Group's financial statements on the date of the acquisition was \$1.8m. Amounts recorded in non-controlling interest have been transferred to retained earnings.

Healthbridge Repromed Pty Ltd

In October 2013, the Group bought out the remaining 1.7% non-controlling interests in Healthbridge Repromed Pty Ltd for \$0.01m by issuing Ordinary Shares equivalent to this value in Healthbridge Enterprises Pty Ltd. This acquisition increased the Group's ownership in Healthbridge Repromed Pty Ltd to 100% (30 June 2013: 98.3%).

The carrying amount of Healthbridge Repromed Pty Ltd's net assets in the Group's financial statements on the date of the acquisition was \$3.9m. Amounts recorded in non-controlling interest have been transferred to retained earnings.

KL Fertility & Gynecology Centre SDN BHD

In June 2014, the Group acquired the remaining 36.3% non-controlling interests in KL Fertility & Gynecology Centre SDN BHD for \$7.15m by issuing 3,866,753 Monash IVF Group Limited ordinary shares at a price of \$1.85 per share. The acquisition increased the Group's ownership in KL Fertility & Gynecology Centre SDN BHD to 100% (30 June 2013: 63.7%).

The carrying amount of KL Fertility & Gynecology Centre SDN BHD's net assets in the Group's financial statements on the date of acquisition was \$0.3m. Amounts recorded in non-controlling interest have been transferred to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

23 EMPLOYEE EQUITY PLANS

Under the Company's LTI Plan, awards (constituting SARs, performance rights or options, or any different class or category of award on such terms as the Board determines) may be offered to eligible persons (including executives, contractors, senior management, doctors and other employees) selected by the Directors. Mr James Thiedeman (CEO) and Dr Richard Henshaw (Executive Director) (and other executive Directors from time to time) are eligible to participate under the LTI Plan. The invitations issued to eligible persons will include information such as award conditions and, upon acceptance of an invitation, the Directors will grant awards in the name of the eligible person.

Awards will not be listed and may not be transferred, assigned or otherwise dealt with except with the approval of the Directors.

Awards will only vest where the conditions (if any) advised to the participant by the Directors have been satisfied. An unvested award will lapse in a number of circumstances, including where conditions are not satisfied within the relevant time period, or in the opinion of the Directors, a participant has committed an act of fraud or misconduct or gross dereliction of duty. If a participant's engagement with the Group (or one of its subsidiaries) terminates before an award has vested, the Directors may determine the extent to which the unvested awards that have not lapsed will become vested awards or, if the award offer does not so provide and the Board does not decide otherwise, the unvested awards will automatically lapse.

Where there is a takeover bid or a scheme of arrangement proposed in relation to the Group, the Directors may determine that the participant's unvested awards will become vested awards. In such circumstances, the Directors shall promptly notify each participant in writing that the awards have become vested awards, or that he or she may, within the time period specified in the notice and where applicable in accordance with the class or category of award, exercise such vested awards. A participant is not entitled to participate, in their capacity as holder of awards, in any new issue of Shares in the Group, nor in any return of capital, buyback or other distribution or payment to shareholders, unless the Board determines otherwise. In the event of a bonus issue or rights issue, the rights of the award will be altered in a manner (if any) determined by the Board, consistent with the ASX Listing Rules.

In the event of any reorganisation of the issued ordinary capital of the Company before the exercise of an award, the number of shares attaching to each award will be reorganised in the manner specified in the Long Term Incentive Plan and in accordance with the ASX Listing Rules or, if the manner is not specified, the Board will determine the reorganisation.

In any event, the reorganisation will not result in any additional benefits being conferred on participants which are not conferred on Shareholders of the Company. Participants who hold an award issued pursuant to the Long Term Incentive Plan have no rights to vote at meetings of the Company until that award has vested (and is exercised, if applicable) and the participant is the holder of a valid Share in the Company. Shares acquired upon vesting of the award will, upon issue, rank equally in all respects with other Shares.

No award or share may be offered under the LTI Plan if to do so would contravene the Corporations Act, the ASX Listing Rules or instruments of relief issued by ASIC from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

24 CASH FLOW INFORMATION

	Consolidated	
	2014 \$'000	2013 \$'000
Reconciliation of profit after income tax to net cash inflow from operating activities		
Profit / (loss) for the period	4,852	(12,725)
Adjustments for:		
Net finance expense	23,525	34,341
Depreciation and amortisation	2,891	4,625
Income tax expense	(6,767)	10,422
IPO transaction costs	12,281	–
Loss on disposal of PPE	–	(1,634)
Operating profit before changes in working capital and provisions	36,782	35,029
Change in trade and other receivables	(466)	(143)
Change in other assets	1,371	(733)
Change in trade and other payables	(412)	1,622
Change in provisions and employee benefits	455	871
Income taxes paid	(1,508)	(6,540)
Net cash from operating activities	36,222	30,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

25 COMMITMENTS

Capital commitments

The Group has \$1.2m of capital expenditure contracted for at the end of the reporting period but not recognised as a liability (2013: \$1.2m).

Non-cancellable operating leases

The group leases various non-cancellable operating leases expiring within 1 to 10 years which are subject to varying terms.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	2014 \$'000	2013 \$'000
within one year	3,944	3,104
later than one year but no later than five years	12,909	9,049
later than five years	3,216	3,735
	20,069	15,888

Total lease expenses recognised in profit or loss is \$4.07m (2013: \$2.86m).

26 RELATED PARTY TRANSACTIONS

Parent entity

Refer to Note 28.

Subsidiaries

Interests in subsidiaries are set out in Note 28.

Key management personnel

Compensation	2014 \$'000	2013 \$'000
Short-term employee benefits	1,478	1,301
Post-employment benefits	67	62
Long-term benefits	30	25
Termination benefits	–	–
Share-based payments	–	–
Total key management personnel compensation	1,575	1,388

Detailed remuneration disclosures are provided in the remuneration report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

Transactions with key management personnel and related parties

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

	Consolidated	
	2014 \$'000	2013 \$'000
Other assets – non-current		
Repromed Management Trust (i)	–	25
Monash IVF Holdings Pty Ltd and their related parties (i)	–	1,984
Management of Healthbridge CMS Pty Ltd and its related parties (i)	–	600
	–	2,609
Redeemable preference shares, including interest payable		
Shareholders of Healthbridge Enterprises Pty Ltd	–	22,317
Promissory notes, including interest payable		
Shareholders of Healthbridge Enterprises Pty Ltd	–	138,701
Purchase of goods and services		
Fees paid – Ironbridge Capital Management Pty Ltd (ii)	1,280	60
Clinician fees (iii)	582	–
	1,862	60

(i) Repromed Management Trust, Monash Management and Healthbridge CMS loans were provided to management to take equity ownerships into Healthbridge Repromed Pty Ltd, Monash IVF Holdings Pty Ltd and Healthbridge CMS and controlled entities respectively. The loan to Monash management accrues 5 per cent interest per annum. Loans are secured by any payment due to management and shares held. These loans are repayable on the date on which employment or services providing by management ceases, or on the date when shares are sold.

(ii) Ironbridge Capital Management Pty Ltd, a related party through common directorship, provided services to the Group relating to provision of directors and restructuring.

(iii) Key management personnel received clinician fees for services provided to patients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

27 AUDITORS REMUNERATION

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2014 \$	2013 \$
Audit services – KPMG		
Audit and review of financial statements	521,000	166,100
Other services – KPMG		
Other assurance services	30,000	49,650
Taxation services	137,589	111,743
Total other services – KPMG	167,589	161,393
Other Auditors (Non-KPMG)		
Audit and review of financial statements	5,000	3,000
Total services	693,589	330,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

28 CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described above.

	Place of business/ country of incorporation	Ownership	
		2014 %	2013 %
Parent Entity			
2014			
Monash IVF Group Limited	Australia	–	–
2013			
Healthbridge Enterprises Pty Ltd	Australia	100.0	–
Monash IVF Group Acquisitions Pty Ltd	Australia	100.0	–
Healthbridge IVF Holdings Pty Ltd	Australia	100.0	100.0
Healthbridge Shared Services Pty Ltd	Australia	100.0	100.0
Healthbridge Repromed Pty Ltd	Australia	100.0	98.3
Repromed Finance Pty Ltd	Australia	100.0	98.3
Repromed Holdings Pty Ltd	Australia	100.0	98.3
Repromed NZ Holding Pty Ltd	Australia	100.0	98.3
Repromed Australia Pty Ltd	Australia	100.0	98.3
Adelaide Fertility Centre Pty Ltd	Australia	100.0	98.3
Monash IVF Holdings Pty Ltd	Australia	100.0	69.4
Monash IVF Finance Pty Ltd	Australia	100.0	69.4
Monash IVF Pty Ltd	Australia	100.0	69.4
Monash Reproductive Pathology and Genetics Pty Ltd	Australia	100.0	69.4
Monash Ultrasound Pty Ltd	Australia	100.0	51.7
Monash IVF Auchenflower Pty Ltd (formerly Wesley Monash IVF Pty Ltd)	Australia	100.0	41.6
Yoncat Pty Ltd	Australia	100.0	–
My IVF Pty Ltd	Australia	100.0	–
ACN 169060495 Pty Ltd	Australia	100.0	–
Palantrou Pty Ltd	Australia	100.0	–
ACN 166701819 Pty Ltd	Australia	100.0	–
ACN 166702487 Pty Ltd	Australia	100.0	–
KL Fertility & Gynaecology Centre SDN. BHD	Malaysia	100.0	63.7

As of 26 June 2014, the ultimate parent entity of the Group is Monash IVF Group Limited, which is domiciled and incorporated in Australia.

Prior to 26 June 2014, the ultimate controlling party of the Group was Ironbridge Fund II LP. This same entity was the same ultimate parent entity in 2013.

The Group holds a 25% interest in ISIS Fertility Unity trust. The performance at ISIS Fertility Unit Trust is not considered material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

29 DEED OF CROSS GUARANTEE

The below listed entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The below companies represent the parties to the deed of cross guarantee ('closed group') for the purposes of the Class Order entered into on 26 June 2014.

- Monash IVF Group Limited
- Monash IVF Group Acquisition Pty Ltd
- Healthbridge Enterprises Pty Ltd
- Healthbridge Shared Services Pty Ltd
- Healthbridge IVF Holdings Pty Ltd
- ACN 169060495 Pty Ltd
- ACN 166701819 Pty Ltd
- HBIVF Johor Bahru Lab Pty Ltd
- My IVF Pty Ltd
- Healthbridge Repromed Pty Ltd
- Monash IVF Holdings Pty Ltd
- Palantrou Pty Ltd
- ACN 166702487 Pty Ltd
- Repromed Finance Pty Ltd
- Monash IVF Finance Pty Ltd
- Repromed Holdings Pty Ltd
- Monash IVF Pty Ltd
- Repromed Australia Pty Ltd
- Repromed NZ Holding Pty Ltd
- Monash Ultrasound Pty Ltd
- Monash Reproductive Pathology & Genetics Pty Ltd
- Monash IVF Auchenflower Pty Ltd
- Yoncat Pty Ltd
- Adelaide Fertility Centre Pty Ltd

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

An extract of the consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are party to the Deed of cross guarantee, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2014 is set out as follows:

	2014 \$'000
Extract of the statement of profit or loss and other comprehensive income	
Loss before tax	(1,972)
Income tax benefit	7,264
Net profit after tax	5,292
Other comprehensive income/(loss)	
Profit for the period	5,292
Items that may be subsequently be reclassified to profit or loss	
Cash flow hedges	280
Tax on cash flow hedges	(84)
Other comprehensive income for the year, net of tax	5,488
Summary of movements in consolidated retained earnings	
Retained earnings at the beginning of the financial year	(102,548)
Profit for the period	5,292
Other comprehensive income	196
Changes in ownership interest in subsidiaries that do not result in change in control	(31,856)
Dividends paid – ordinary shares	(25,566)
Retained earnings at the end of the financial year	(154,482)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

29 DEED OF CROSS GUARANTEE continued

Statement of financial position	2014 \$'000
Current assets	
Cash and cash equivalents	8,588
Trade and other receivables	2,931
Inventories	800
Other assets	1,816
Total current assets	14,135
Non current assets	
Investment in subsidiaries	12,373
Trade and other receivables	448
Property, plant and equipment	9,002
Intangible assets	214,527
Deferred tax assets	2,052
Other assets	–
Total non current assets	238,402
Total assets	252,537
Current liabilities	
Trade and other payables	17,775
Borrowings	56
Current tax liability	723
Employee benefits	5,405
Total current liabilities	23,959
Non current liabilities	
Borrowings	95,486
Employee benefits	858
Contingent consideration	1,000
Total non current liabilities	97,344
Total liabilities	121,303
Net assets	131,234
Equity	
Contributed equity	422,566
Reserves	(136,850)
Retained earnings	(154,482)
Total equity	131,234

Please review note 5 which describes the impact on the consolidated financial statements and associated notes arising from the initial public offering.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

30 PARENT ENTITY DISCLOSURES

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts. The 2013 comparative is Healthbridge Enterprises Pty Ltd, the parent entity prior to 26 June 2014.

	2014 \$'000	2013 \$'000
Results of parent entity		
(Loss) / profit for the period	(8,718)	848
Other comprehensive income	–	–
Total comprehensive income / (loss) for the period	(8,718)	848
Financial position of the parent entity at year end		
Current assets	408,311	498
Total assets	413,898	200,937
Current liabilities	50	78
Total liabilities	50	156,530
Total equity of the parent entity comprising of:		
Share capital	422,566	49,514
Retained earnings	(8,718)	(5,107)
Total equity	413,848	44,407

Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any capital commitments for the acquisition of property, plant or equipment as at 30 June 2014 (2013: nil).

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note 29.

31 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the group, in future financial periods.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Monash IVF Group Limited (the 'Company'):
 - (a) the consolidated financial statements and notes set out on pages 53 to 105 and the Remuneration report on pages 42 to 50 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2014.
4. The Directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Dated at Sydney this 28th day of August 2014



Mr Richard Davis
Chairman
28 August 2014



Mr Benjamin ('James') Thiedeman
Chief Executive Officer and Managing Director
28 August 2014

INDEPENDENT AUDITORS REPORT



Independent auditor's report to the members of Monash IVF Group Limited

Report on the financial report

We have audited the accompanying financial report of Monash IVF Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

INDEPENDENT AUDITORS REPORT (cont.)

*Independence*

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 42 to 50 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Monash IVF Group Limited for the year ended 30 June 2014, complies with Section 300A of the Corporations Act 2001.

KPMG

Maurice Bisetto
Partner

Melbourne
28 August 2014

SHAREHOLDER INFORMATION

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 14 August 2014.

DISTRIBUTION OF SHAREHOLDERS – ORDINARY SHAREHOLDERS

Size of holding	No. of Shareholders	Ordinary Shares	% of issued capital
1 – 1,000	207	130,404	0.06%
1,001 – 5,000	788	2,381,201	1.03%
5,001 – 10,000	766	5,790,920	2.51%
10,001 – 100,000	1216	28,132,029	12.17%
Over 100,001	97	194,646,535	84.23%
Totals	3,074	231,081,089	100%
Less than marketable parcels of ordinary shares	25	5,648	0.82%

20 LARGEST SHAREHOLDERS – ORDINARY SHARES

Name	No. of fully paid shares	% of Issued Capital
1 J P Morgan Nominees Australia Limited	39,371,164	17.04%
2 National Nominees Limited	24,688,960	10.68%
3 Citicorp Nominees Pty Limited	16,185,133	7.00%
4 HSBC Custody Nominees (Australia) Limited	13,998,468	6.06%
5 Gattaca Holdings NV	7,607,352	3.29%
6 UBS Nominees Pty Ltd	6,208,694	2.69%
7 Citicorp Nominees Pty Limited	4,263,691	2.00%
8 RBC Investor Services Australia Nominees Pty Limited	3,869,229	1.67%
9 Pacific Custodians Pty Limited	3,852,794	1.67%
10 Argo Investments Limited	3,838,063	1.66%
11 Prashant Nadkarni	3,653,709	1.58%
12 HSBC Custody Nominees (Australia) Limited	2,583,049	1.12%
13 National Nominees Limited	2,458,449	1.06%
14 BNP Paribas Noms Pty Ltd	2,451,211	1.06%
15 HSBC Custody Nominees (Australia) Limited – A/C 3	2,361,152	1.02%
16 Brispot Nominees Pty Ltd	2,330,480	1.01%
17 Kelton Paul Tremellen	2,218,977	0.96%
18 MJL Investments Pty Ltd	2,127,476	0.92%
19 HSBC Custody Nominees (Australia) Limited – A/C 2	2,072,000	0.90%
20 Ippoliti Pty Ltd	2,011,336	0.87%
Totals	148,511,387	64.27%

SHAREHOLDER INFORMATION (cont.)

Substantial Shareholders

	Name	No. of fully paid shares	% of Issued Capital
1	J P Morgan Nominees Australia Limited	39,371,164	17.04%
2	National Nominees Limited	24,688,960	10.68%
3	Citicorp Nominees Pty Limited	16,185,133	7.00%
4	HSBC Custody Nominees (Australia) Limited	13,998,468	6.06%

VOTING RIGHTS

In accordance with the Constitution, each member present at a meeting (whether in person, by proxy, by power of attorney or by a duly authorised representative), upon a poll, shall have one vote for each fully paid ordinary share.

CORPORATE DIRECTORY

STOCK EXCHANGE LISTING

The shares of Monash IVF Group Limited are listed by ASX Ltd on the Australian Securities Exchange trading under "MVF".

DIRECTORS

Mr Richard Davis – Chairman
Ms Christy Boyce
Mr Neil Broekhuizen
Mr Joe Czyzewski
Dr Richard Henshaw
Mr James Thiedeman

COMPANY SECRETARY

Mr Rodney Fox

SHARE REGISTRY

Link Market Services
Level 12
680 George Street
Sydney, NSW, 2000
Phone: 1300 554 474

AUDITOR

KPMG
147 Collins St
Melbourne, VIC, 3000

CORPORATE OFFICE

Pelaco Building
Level 1, 21-31 Goodwood Street
Richmond, VIC, 3121
Phone: 03 9427 9188

WEBSITE

www.monashivfgroup.com.au



MONASH IVF GROUP