

Virtus Health Limited
ABN 80 129 643 492

virtushealth 

Annual Report

for the year ended 30 June 2013





.....

NOTICE OF ANNUAL GENERAL MEETING

The inaugural Annual General Meeting of Virtus Health Limited will be held at 2.00pm (Sydney time) on Wednesday, 6 November 2013 at Level 1, Rooms 5-6, Hilton Hotel, 488 George Street, Sydney NSW 2000.

Embryoscope: Leading time lapsed digital imagery research of embryo development in Australia

HIGHLIGHTS

Virtus Health Limited brings together Australia's leading clinicians, scientists, researchers and support staff to provide the very best in fertility care and related services.

We have developed one of the most successful medical collaborations in the world. With more than 80 of the world's leading fertility specialists supported by 825 professional staff, we are the largest network and provider of fertility services in Australia. Our combined expertise creates a unique and powerful body of knowledge which when combined with the collegial team approach of our specialists and scientists, means we are able to find new and advanced solutions for achieving success for our patients.

LEADING
MINDS
LEADING
SCIENCE



82

FERTILITY
SPECIALISTS

172

SCIENTIFIC
STAFF

653

OTHER
STAFF



33
CLINICS

H 6

DAY
HOSPITALS



17
EMBRYOLOGY
CLINICS

18
ANDROLOGY
CLINICS



CHAIRMAN'S STATEMENT

I am pleased to present my first statement as Chairman of Virtus Health since the ASX listing in June this year. Virtus Health is the leading provider of assisted reproductive services ("ARS") in Australia working with 82 fertility specialists and employing over 800 people. Our teams are committed to providing high quality patient care in reproductive medicine and in our day hospitals where we also provide support and care to over 25,000 patients in a wide range of surgical specialities.

I would like to welcome all our new shareholders who have joined the group since June and trust that you will find our first report as a listed company to be interesting and informative.

As you will appreciate the commitment to undertake an ASX listing is a significant event for any company and the success of the listing to date is testimony to the hard work of everybody directly involved in the listing process including investment bankers, reporting accountants, corporate lawyers and the senior management team. However, at the heart of a successful listing there has to be a good quality business and I believe that the staff, doctors, management and previous shareholders have been diligent in their delivery of high quality patient care and services which is the foundation on which Virtus Health and its individual operations, has built its business over three decades.

I am also pleased to confirm that our first reported results for the financial year ending 30 June 2013 have slightly exceeded our pro-forma forecasts provided in the Virtus Health prospectus published in May. Further details of the pro-forma consolidated results for the current and prior year are provided on pages 5 to 7.

As we enter the new financial year we continue to look at opportunities to develop our geographic footprint and this will likely include some further organic expansion and fertility clinic and day hospital acquisitions in Australia.

With an ASX listing, there are new demands placed on the people who work for Virtus Health, The management team led by our Group Chief Executive Officer, Sue Channon is responding to the new requirements of being a listed company. However in spite of the time consumed by the listing we have continued to invest in new facilities and have added to our core healthcare competencies thus extending the capability of Virtus to deliver high quality Assisted Reproductive Services.

New facilities have opened in Waverley and Werribee in Victoria and Dee Why in New South Wales. Additionally we have added three new locations for our increasingly popular low cost model of care "The Fertility Centre" ("TFC") which operate in conjunction with our full service clinics. I am also pleased to advise that we are expanding TFC Springwood in Queensland to meet increased patient interest in this service following a very successful first full year of operation.

Our Queensland management team also completed a relocation and expansion of our main Queensland Fertility Group Brisbane CBD clinic. The \$4.25 million investment was completed at the end of the financial year and provides a newly refurbished facility to support our Brisbane patients.

In our day hospital activities we acquired the remaining fifty per cent shareholding of City East Specialist Day Hospital, Maroubra, NSW in August 2012 and at our City West Specialist Day Hospital joint venture in Westmead, NSW we invested \$2.2 million in a modernisation and expansion program.

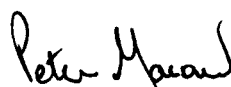
We will continue to develop the capability of our diagnostic services which complement our ARS capability. New tests added to our diagnostic test platforms include chlamydia and natural killer cell testing; the latter test is a primary example of an internally developed innovation which is supporting ARS for a particular patient cohort.

As we enter the new financial year we continue to look at opportunities to develop our geographic footprint and this will likely include some further organic expansion and fertility clinic and day hospital acquisitions in Australia.

We are also continuing to review several international opportunities and the Board is working closely with management on formulating appropriate business models to utilise the considerable expertise Virtus Health has in the provision of Assisted Reproductive Services.

I am also pleased to report that one of our senior Melbourne IVF fertility specialists, Associate Professor John McBain, has been recognised as an Officer (AO) in the Queen's Birthday Honours list for his distinguished service to reproductive medicine as a gynaecologist, particularly in the area of infertility, to medical education as an academic, and to professional organisations. John continues to play an active role in the strategic development of Virtus Health as well as serving his patients.

Finally, as the newly appointed Chairman of Virtus Health, I would like to thank all of our staff, doctors and management teams who have contributed to the success of Virtus Health to date. In my early meetings with members of the Virtus team I have been very impressed by the commitment and intellectual capacity of our people in a sector where advances in clinical practice will form an important part of our continued growth and development. We will continue to support the enhancement of our clinical and scientific capability for improved patient outcomes.



Peter Macourt
Chairman

CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW

I am pleased to present the Operating and Financial Review, the first review for Virtus as an ASX listed company.

Operations - overview

Virtus is an Australian healthcare services company whose main activity is providing patients with Assisted Reproductive Services ("ARS"), but which also derives significant revenues from specialised diagnostics and day hospitals. Virtus provides services to patients through a network of 33 fertility clinics, 17 embryology laboratories, 18 andrology laboratories, 6 specialised diagnostic testing laboratories and 6 day hospitals across New South Wales, Victoria and Queensland.

ARS involve investigating, assessing and providing treatment options for patients experiencing infertility. These services are supported by specialised diagnostics and day hospital services. The most common Assisted Reproductive Service is a fresh stimulated IVF cycle which involves administering a stimulating hormone to a woman, collecting eggs, clinical fertilisation of those eggs and observing their development in a laboratory before transferring the embryos into the uterus.

Virtus generates income by providing the following services to patients:

- *Assisted Reproductive Services* – Virtus receives income for providing ARS to patients using technologies and scientific methods aimed at achieving a clinical pregnancy.
- *specialised diagnostics* – Virtus receives income for providing specialised diagnostic tests used in the diagnosis of infertility and the provision of ARS to its patients. Virtus' specialised diagnostic tests are also used by a small number of other fertility clinics and obstetricians in locations in which Virtus does not operate, and
- *day hospitals* – Virtus receives income for patient procedures conducted in its day hospitals. In aggregate, procedures in relation to ARS are the single largest medical specialty area performed in Virtus' day hospitals. Virtus also supports the delivery of non-IVF procedures including the speciality areas of endoscopy, gynaecology, dental, ophthalmic, cosmetic, urology and plastic surgery.

Virtus' patients receive partial reimbursement for services provided by Virtus from the Australian Commonwealth Government through Medicare and private health insurance (if insured).

Operations - FY13

Virtus continued to expand its geographic footprint and enhance its existing facilities; total capital expenditure was \$10,583,000.

New ARS facilities were opened in Waverley and Werribee in Victoria and in Dee Why in New South Wales. Additionally Virtus added three new locations for the increasingly popular low cost model of care "The Fertility Centre" ("TFC") clinics which operate in conjunction with our full service clinics. The Virtus vision is to ensure that high tech ARS are accessible to Australians where affordability may be an issue. These services are provided under a strict protocolised approach to patient care. New TFC clinics were opened in Dandenong, Victoria in November 2012, in Liverpool, New South Wales in February 2013 and Virtus recently converted a small consulting and monitoring centre in Sunshine, Victoria into its fourth TFC. Virtus is also expanding TFC Springwood in Queensland to meet increased patient interest in this service following a very successful first full year of operation.

Virtus completed a relocation and expansion of its main Queensland Fertility Group Brisbane CBD clinic. The \$4,250,000 investment was completed at the end of the financial year and provides a newly refurbished facility to support Brisbane patients. Virtus also expanded the capacity of its cytogenetic testing facility to meet increased demand experienced in FY2013.

In day hospital activities Virtus acquired the remaining fifty per cent shareholding of City East Specialist Day Hospital, Maroubra, NSW in August 2012 and at the City West Specialist Day Hospital joint venture in Westmead, NSW, Virtus invested \$2,200,000 in a modernisation and expansion program to create enhanced facilities for day hospital patients, more efficient operating facilities for specialists and additional operating capacity.

Virtus has continued to develop the capability of its diagnostic services which complement the ARS capability. New tests added to the diagnostic testing platforms include chlamydia and natural killer cell activation testing; the latter test is a primary example of an internally developed innovation which is supporting ARS for a particular patient cohort.

Revenue

Virtus has achieved revenue growth of 13.0%. Virtus achieved IVF cycle growth of 3.8% in New South Wales, Queensland and Victoria compared to the equivalent Assisted Reproductive Services ("ARS") market volume growth of 1.2%. Virtus has seen strong growth in its low cost "The Fertility Centre" branded clinics and in

Our success is built upon the considerable skill and expertise of our fertility specialists and the employees who work in our clinics, laboratories, day hospitals and offices.



14,342
NUMBER OF IVF CYCLES - FY13

specialist diagnostics, particularly in its cytogenetic and pre-implantation genetic diagnosis testing activities. Diagnostic revenue growth has been 12.4%.

Results - Statutory

Key highlights extracted from the audited results are:

- Revenue increased by 13.0% to \$186,581,000.
- EBITDA decreased by 10.8% to \$43,429,000 (see reconciliation on page 23).
- Profit before income tax expense decreased to \$14,355,000 from \$26,373,000.
- Segment EBITDA increased by 9.1% to \$56,282,000 (see Note 3 on page 56).

A significant feature in the decline of statutory profit before tax was the incidence of costs associated with the listing of Virtus shares on the ASX and the refinancing of the consolidated entity's bank facilities. Major non-recurring costs included:

- IPO listing costs, \$10,651,000;
- Share based payment costs, \$6,827,000; and
- Debt restructure costs, \$11,600,000.

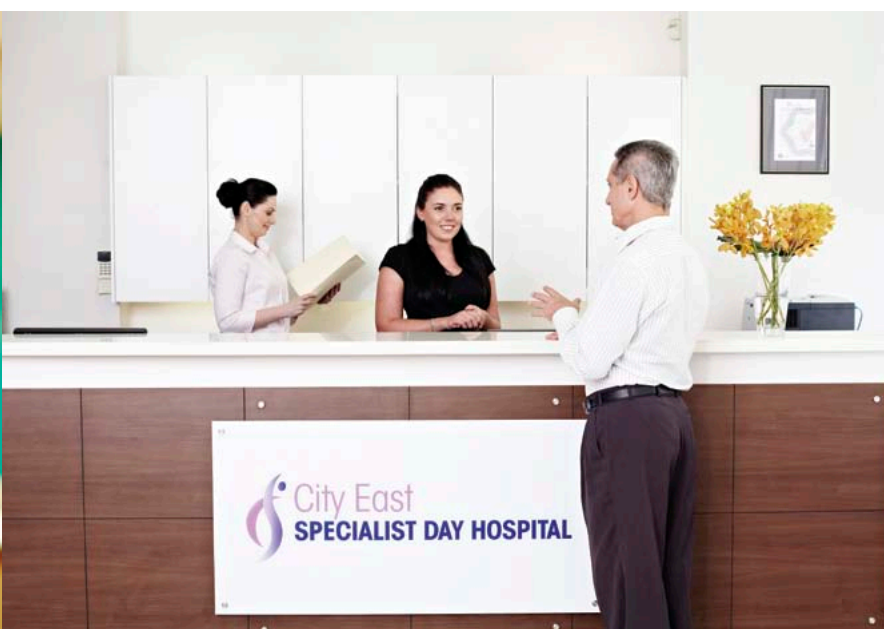
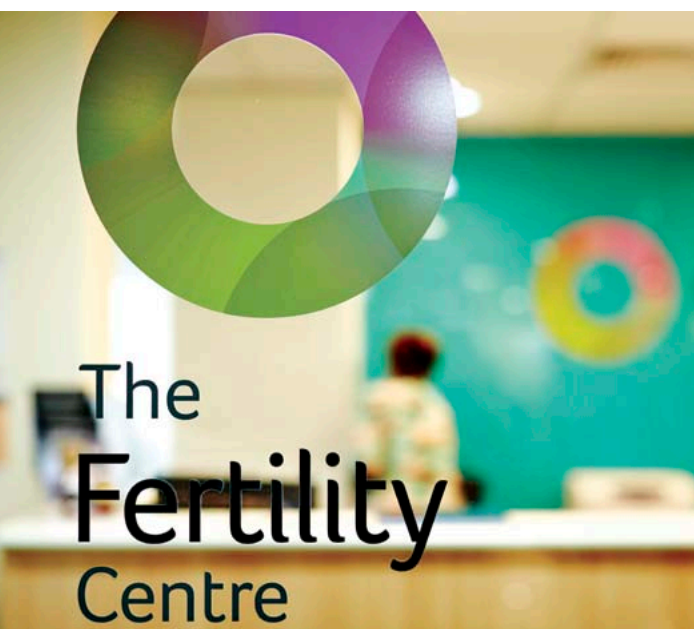
Partially offsetting these costs was a net gain on the acquisition of an associate company of \$5,670,000.

Results - pro-forma (unaudited)

On a pro-forma basis, EBITDA increased by 8.7% to \$56,100,000 and exceeded IPO prospectus pro-forma EBITDA forecast for FY13 by \$800,000. Statements of pro-forma adjustments to the statutory income statement and a pro-forma consolidated income statement are set out on the following pages.

Virtus has prepared pro-forma results on a similar basis to the pro-forma forecasts presented in the IPO prospectus published in May 2013. The tables set out on the following pages provide an overview of performance against the prospectus forecast for FY13 and also a comparison to FY12.

CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW (continued)



Pro-forma adjustments to the statutory income statement

The table below sets out the adjustment to the Statutory Results for 2012 and 2013 to primarily reflect the acquisitions that Virtus Health Limited has made since 1 July 2011 as if they have occurred as at 1 July 2011 and the full year impact of the operating and capital structure that is in place following completion of the IPO as if it was in place as at 1 July 2011. In addition, certain other adjustments to eliminate non-recurring items have been made. These adjustments are summarised below:

	CONSOLIDATED	
	30 June 2013 \$m	30 June 2012 \$m
Statutory revenue	192.9	165.1
Interest received	(0.5)	(0.4)
Net gain on acquisition of City East Specialist Day Hospital	(5.7)	-
Pro-forma impact of historical acquisitions	0.6	6.9
Pro-forma revenue	187.3	171.6
Statutory NPAT	10.1	19.7
Pro-forma impact of historical acquisitions and other one-off costs	1.1	3.6
Net gain on acquisition of City East Specialist Day Hospital	(5.7)	-
Share-based payments expense	6.8	0.3
Public company costs	(1.2)	(1.2)
IPO transaction costs	10.7	-
Debt structure costs	11.6	3.5
Amortisation	0.8	2.3
Income tax effect	(6.9)	(3.5)
Pro-forma NPAT	27.3	24.7

Pro-forma consolidated income statements: financial year ended 30 June 2013 compared to financial year ended 30 June 2012 and the prospectus forecast for year ended 30 June 2013

The pro-forma consolidated income statement for the financial year ending 30 June 2013 has been prepared on the same basis as the pro forma consolidated financial income statement for the twelve months ending 30 June 2012 published in the Virtus Health IPO prospectus issued in May 2013.

The table below sets out the pro forma consolidated income statement for the financial year ended 30 June 2013 compared to the pro-forma consolidated income statement for the financial year ended 30 June 2012 and the prospectus forecast for the year ended 30 June 2013.

	CONSOLIDATED			PROSPECTUS FORECAST*
	30 June 2013 \$m	30 June 2012 \$m	Change	30 June 2013 \$m
Total revenue	187.3	171.6	9.1%	184.5
Labour costs	(55.8)	(49.9)	(11.8)%	(55.0)
Provider fees	(29.4)	(27.4)	(7.3)%	(29.3)
Facility and occupation costs	(11.8)	(10.4)	(13.5)%	(12.0)
Consumables and supplies	(19.8)	(18.2)	(8.8)%	(19.4)
Other operating costs	(14.4)	(14.1)	(2.1)%	(13.5)
Total expenses	(131.2)	(120.0)	(9.3)%	(129.2)
EBITDA	56.1	51.6	8.7%	55.3
Depreciation	(6.5)	(5.9)	(10.2)%	(6.4)
Amortisation	(2.0)	(1.1)	(81.8)%	(2.1)
EBIT	47.6	44.6	6.7%	46.8
Net interest expense	(9.2)	(9.7)	5.2%	(9.2)
Profit before tax	38.4	34.9	10.0%	37.6
Income tax expense	(11.1)	(10.2)	(8.8)%	(11.0)
NPAT	27.3	24.7	10.5%	26.6
NPATA	28.0	25.4	10.2%	27.3
<i>EBITDA Margin</i>	<i>30.0%</i>	<i>30.1%</i>	<i>(0.1)%</i>	<i>30.0%</i>
<i>EBIT Margin</i>	<i>25.4%</i>	<i>26.0%</i>	<i>(0.6)%</i>	<i>25.4%</i>
Summary key performance indicators				
Number of IVF Cycles - Virtus	14,342	13,816	3.8%	14,124
Average Total Revenue Per IVF Cycle	\$13,060	\$12,420	5.2%	\$13,034

* Prospectus cost allocations have been restated to match statutory accounts classifications.

CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW (continued)

Financial Position

Debt and Interest Expense

On 11 June 2013, Virtus completed the renegotiation and drawdown of a new group bank facility agreement, replacing the previous bank facility which was due to mature in August 2013. The \$150,000,000 three year facility comprises:

- \$100,000,000 non-amortising facility;
- \$40,000,000 facility for general expenditure, working capital and capital expenditure;
- \$10,000,000 working capital facility; and

A further \$5,000,000 working capital facility is available until 31 December 2013.

Margins payable by Virtus on the new facilities are significantly lower than those incurred prior to the renegotiation.

At 30 June 2013, total facilities drawn were \$145,000,000 in cash and \$4,351,000 in guarantees. Cash balances at the end of June 2013 were \$12,485,000.

Amortisation of Borrowing Costs

Unamortised borrowing costs on expiring syndicated bank facilities which were terminated in FY2013 of \$5,061,000 were charged to the income statement. Amortisation of borrowing cost expense for the next financial year is expected to be \$370,000

Taxation

The effective tax rate on operating earnings for FY13 was 29.6%

Dividend

No final dividend will be paid for the period following listing on 11 June 2013, as indicated in the prospectus for the listing of Virtus Health Limited ordinary shares on the ASX. Dividends of \$74,599,000 were paid to shareholders of Virtus prior to listing.

Business Development Strategy

Based on the long term trend of women in Australia delaying the birth of children and the infertility rate among Australian women aged over 30 continuing to increase as a consequence of a range of social and demographic factors, we expect that demand for assisted reproductive services and the associated diagnostic testing and day hospital procedures should continue to increase.

We will continue to invest in our network of fertility clinics and also the clinical and scientific services offered to patients to enable Virtus to meet the increased demand from the Australian market. As we enter the new financial year we continue to look at opportunities to develop our geographic footprint and this will likely include some further organic expansion and fertility clinic and day hospital acquisitions in Australia.

Virtus will also seek opportunities to expand the range of diagnostic test activities to support the ARS business and in the day hospitals Virtus is focused on improved facility utilisation and operational efficiencies.

Virtus is continuing to review several international markets and the Board is working closely with management on formulating appropriate business models to utilize the considerable expertise Virtus has in the provision of ARS.

Research and Development

Virtus fertility specialists, scientists and nurses individually and collectively engage in a wide range of research activities which support the improvement of patient outcomes. At the recent Fertility Society of Australia Scientific meeting held in Sydney in September 2013, Virtus personnel presented 38 research papers on a wide range of infertility related subjects; our commitment to scientific development is an essential part of our business development strategy.

Material Business Risks

Virtus faces certain material business risks that could have an effect on the financial prospects of Virtus and these include:

- Change in Commonwealth Government funding/ increasing patient out of pocket expenses

Patients receive partial reimbursement for Virtus' services through Commonwealth Government programs, including the Medicare Benefit Schedule and Extended Medicare Safety Net. If the level of reimbursement provided by these programs for Virtus' services were to change, Virtus' patients may face higher out-of-pocket expenses for ARS. This may cause Virtus to experience reduced demand for its range of services, potentially leading to a reduction in Virtus' revenue and profitability.

- Availability of fertility specialists/variability of growth.

Virtus relies on maintaining its relationship with existing fertility specialists, as well as contracting with and building the practices for new fertility specialists to assist in capturing market growth, increasing market share and replacing any retiring fertility specialists. If Virtus cannot successfully maintain its relationship with existing fertility specialists or contract and grow IVF cycles for new fertility specialists it may not be able to meet its growth aspirations.

- Variation in patient demand.

The growth in patient demand and IVF cycles has historically experienced variability over short-term periods notwithstanding the long-term social and demographic trends driving patient demand for ARS. Variability in the historic growth in IVF cycles over short-term periods has been attributable to changes in local economic conditions, natural disasters and regulatory changes. Whilst Virtus is diversified across regional markets, Virtus' revenue generation and profitability can be positively and negatively affected in the short term by variability in the growth in IVF Cycles in the regional markets in which it operates.

Fertility Specialists and Employees

Our success is built upon the considerable skill and expertise of our fertility specialists and the employees who work in our clinics, laboratories, day hospitals and offices.

I remain very conscious of the special group of 83 fertility specialists, 825 individuals and a diverse range of specialist providers in our day hospitals that make Virtus Health the success it is today. It is this group of dedicated individuals who are all responsible for our exceptional patient care which is evident in our leading market position in the states in which we operate and for the demonstrable satisfaction that we see in our patients every day. As an organisation we aspire to support all of our team in the ongoing delivery of operational excellence and exceptional patient care.

BOARD OF DIRECTORS AND COMPANY SECRETARY



Peter Macourt

BCom.; ACA; GAICD
Chairman

Peter is a former director and chief operating officer of News Limited. While at News Limited, he served as a director of Premier Media, Foxtel, Independent Newspapers Limited and a number of subsidiaries and associated companies of The News Corporation Limited.

Peter was appointed Chairman of SKY Network Television Limited in August 2002, a position he still holds.

Peter is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.



Sue Channon

Registered Nurse Div1; OR
Management Certificate
Group CEO

Sue has held senior management positions in various Australian healthcare organisations for over 20 years. Before her appointment to CEO of Virtus in November 2010, Sue was CEO of IVF Australia Pty Ltd.

Prior to joining Virtus, Sue was State Manager for NSW and ACT for Medical Imaging Australia, the National Director of Nursing for Mayne Group (now part of Ramsay Health Care), CEO of Kareena Private Hospital, CEO of Castlecrag and Mosman Private Hospital and CEO and Director of Nursing for Castlecrag Private Hospital.



Peter Turner

BSc.; MBA; MAICD
Non-executive Director

Prior to joining Virtus, Peter served as Executive Director and Chief Operating Officer of CSL Limited and was the founding President of CSL Behring LLC. Peter is currently a non-executive director of NPS MedicineWise.

Peter is Chairperson of the Nomination and Remuneration Committee.



Dennis O'Neill

BSc. (Hons) Mech. Eng;
CPE (ret), FIEA; FAICD; FAIM
Non-executive Director

Dennis is the former CEO and Managing Director of Evans Deakin Industries Ltd and United Group Ltd and the former Chairman of Decmil Group Ltd. In March 2009, Dennis was appointed as Chairman and Advisory Chairman of Queensland Fertility Group Pty Ltd. He is also Advisory Chairman to several unlisted companies and is the Steel Supplier Advocate for the Commonwealth Government.

Dennis is Chairperson of the Audit and Risk Committee.



Marcus Darville

MA; MBA

Non-executive Director

Marcus has been a director of Quadrant since 2006 and a director of Virtus since February 2008. Prior to joining Quadrant, Marcus was the joint Head of Private Equity at AMP and an Investment Manager at NatWest Ventures.

Marcus is also a member of the Quadrant Investment Committee and has acted as a director of a number of Quadrant investee companies.

Marcus currently serves on the boards of Summerset, iSentia (formerly Media Monitors), Super Amart and Barbeques Galore.

Marcus is a member of the Audit and Risk Committee and the Nomination and Remuneration Committee.



Lyndon Hale

MBBS; FRACOG; CREI

Executive Director

Lyndon has been the Medical Director of Melbourne IVF Pty Ltd since 2008. He is also Director of Reproductive Surgery at The Women's Hospital, and is on the board of the Fertility Society of Australia. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.



Glenn Powers

BSc. (Hons); CMA

CFO and Company Secretary

Glenn joined Virtus as CFO and Company Secretary in August 2008. Prior to joining Virtus, Glenn was CFO and Company Secretary of Tower Software Limited.

Glenn has a broad range of experience in private equity backed businesses, working in a range of engineering, electronics, software and service businesses. Glenn has also been a Director for both main and AIM market listed businesses in the UK. Glenn is a Chartered Management Accountant.

CORPORATE GOVERNANCE

This Corporate Governance Statement explains how the Board will oversee the management of Virtus Health Limited's ('Virtus') business. The Board is responsible for the overall corporate governance of Virtus. The Board monitors the operational and financial position and performance of Virtus and oversees its business strategy, including approval of the strategic goals of Virtus and considering and approving an annual business plan, including a budget. The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of Virtus. In conducting Virtus' business with these objectives, the Board seeks to ensure that Virtus is properly managed to protect and enhance shareholder interests, and that Virtus, its directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Virtus, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Virtus' business and which are designed to promote the responsible management and conduct of Virtus.

The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The recommendations are not prescriptive, but guidelines. The following table is a summary of the ASX Corporate Governance Principles and Recommendations and Virtus' compliance with these guidelines following the Virtus' listing on the ASX on 11 June 2013. Where there is non-compliance further explanation is provided in the statements below the table.

RECOMMENDATION	COMPLIANCE YES/NO
1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Yes
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1. (<i>Lay solid foundations for management and oversight</i>).	Yes
2.1 A majority of the Board should be independent directors.	No
2.2 The chair should be an independent Director.	Yes
2.3 The roles of chair and Chief Executive Officer should not be exercised by the same individual.	Yes
2.4 The Board should establish a nomination committee.	Yes
2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes
2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2. (<i>Structure the Board to add value</i>).	Yes
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Yes Yes Yes
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Yes
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3. (<i>Promote ethical and responsible decision-making</i>).	Yes

RECOMMENDATION		COMPLIANCE YES/NO
4.1	The Board should establish an audit committee.	Yes
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists of only non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the Board; and • has at least three members. 	Yes Yes Yes Yes
4.3	The audit committee should have a formal charter.	Yes
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4. (<i>Safeguard integrity in financial reporting</i>).	Yes
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5. (<i>Make timely and balanced disclosure</i>).	Yes
6.1	Companies should design a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6. (<i>Respect the rights of shareholders</i>).	Yes
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to reporting risks.	Yes
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7. (<i>Recognise and manage risk</i>)	Yes
8.1	The Board should establish a remuneration committee.	Yes
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors; • is chaired by an independent chair; and • has at least three members. 	Yes Yes Yes
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of Directors and senior executives.	Yes
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8. (<i>Remunerate fairly and responsibly</i>).	Yes

The main policies and practices adopted by Virtus are summarised below. In addition, governance elements are also contained in the Constitution. Details of Virtus' key policies and practices and the charters for the Board and each of its committees are available at www.virtushealth.com.au.

CORPORATE GOVERNANCE (continued)

1.1 Board of Directors

The Board of Directors is comprised of the Chief Executive Officer, the Chairman, one executive director and three non-executive directors.

Detailed biographies of the Board members are provided in the 'Information on directors' section of the Directors' report.

The Board considers an independent director to be a non-executive director who is not a member of Virtus' management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of their judgment. The Board will consider the materiality of any given relationship on a case by case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each director in light of interests disclosed to the Board from time to time.

Virtus' board charter sets out guidelines and thresholds of materiality for the purpose of determining independence of directors in accordance with the ASX Recommendations, and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

The Board considers thresholds of materiality for the purpose of determining 'independence' on a case-by-case basis, having regard to both quantitative and qualitative principles. Without limiting the Board's discretion in this regard, the Board has adopted the following guidelines:

- the Board will determine the appropriate base to apply (for example, revenue, equity or expenses), in the context of each situation; in general, the Board will consider an affiliation with a business which accounts for less than 5% of the relevant base to be immaterial for the purpose of determining independence. However, where this threshold is exceeded, the materiality of the particular circumstance with respect to the independence of the particular director should be reviewed by the Board; and
- overriding the quantitative assessment is the qualitative assessment. Specifically, the Board will consider whether there are any factors or considerations which may mean that the directors' interests, business or relationship could, or could be reasonably perceived to, materially interfere with the directors' ability to act in the best interests of Virtus.

The Board considers that each of Peter Macourt (Chairman), Peter Turner and Dennis O'Neill are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of the director's judgement and are each able to fulfill the role of an independent director for the purposes of the ASX Recommendations.

Susan Channon, Marcus Darville and Lyndon Hale are currently considered by the Board not to be independent. Susan Channon is currently the Chief Executive Officer ('CEO'). Marcus Darville is a director of Quadrant Private Equity who up until listing on 11 June 2013, were significant shareholders in Virtus. The Quadrant funds sold their entire shareholding at Listing. Lyndon Hale is a Fertility Specialist who is contracted by Virtus to provide Assisted Reproductive Services, and is also entitled to participate in the option plans described in Section D of the Remuneration report.

Accordingly, the Board does not consist of a majority of independent directors. The Board acknowledges the ASX Recommendation that a majority of the Board should be independent non-executive directors. Although Marcus Darville is not currently considered to be independent, his knowledge of the business as Chairman prior to listing is considered to be a positive asset to Virtus in the initial post listing period. The Board believes that each of the non-executive directors brings objective and independent judgment to the Board's deliberations and that each of the non-executive directors makes invaluable contributions to Virtus through their deep understanding of Virtus' business. The Board has the objective that it will include a majority of independent directors by November 2014.

Non-executive director remuneration is set in accordance with the Constitution and the ASX listing rules.

Under the Constitution, the directors decide the total amount paid to each director as remuneration for their services as a director to Virtus. However, under the listing rules of ASX ('ASX Listing Rules'), the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by Virtus' general meeting. For further details refer to Section A 'Principles used to determine the nature and amount of remuneration', of the Remuneration report, contained in the Directors' report,

1.2 Board Charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the roles and responsibilities of the Board including to provide overall strategic guidance for Virtus and effective oversight of management, oversight of Virtus' financial and capital management, the promotion and facilitation of effective communication with shareholders, oversight of policies between Virtus and other stakeholders, ethical and responsible decision making along with compliance and risk management;
- the role and responsibilities of the chairman and company secretary;
- the delegations of authority of the Board to both committees of the Board and the CEO and other management of Virtus;
- the membership of the Board, including in relation to the Board's composition and size and the process of selection and re-election of directors, independence of directors and conduct of individual directors; and
- board process, including how the Board meets.

The Board is responsible for the following:

- **Strategy**
 - a. overseeing the development of Virtus' corporate strategy through constructive engagement with senior executives;
 - b. reviewing and approving strategic plans and performance objectives of Virtus consistent with the corporate strategy, and reviewing the assumptions and rationale underlying the strategic plans and performance objectives; and
 - c. monitoring implementation of the strategy plans.
- **Oversight of management**
 - a. the appointment and if appropriate, removal of the Chief Executive Officer ('CEO'), the Chief Financial Officer ('CFO') and the Company Secretary;
 - b. approving succession plans for key individuals;
 - c. monitoring senior executives' performance and implementation of strategy against measurable and qualitative indicators, encouraging enhanced effectiveness and ensuring that appropriate resources are available;
 - d. approving senior executive remuneration policies and practices;
 - e. providing advice and counsel to management; and

- f. ensuring that the senior executives supply the Board with information that will help the Board discharge its duties.

- **Shareholders**

- a. promoting effective communication with shareholders, including convening shareholders' meetings, listening and responding to shareholders' views of management and of Virtus;
- b. facilitating the effective exercise of shareholders' rights; and
- c. reporting to shareholders and compliance with relevant regulatory requirements.

- **Other stakeholders**

- a. establishing and monitoring policies governing Virtus' relationship with other Stakeholders and the broader community; and
- b. establishing and maintaining environmental, employment and occupational, health and safety policies and other regulatory and statutory requirements.

- **Ethics and responsible decision-making**

- a. actively promoting ethical and responsible decision-making;
- b. establishing and maintaining a code of conduct to guide its directors and management in the practices necessary to maintain confidence in Virtus' integrity;
- c. the system of accountability for unethical practices; and
- d. establishing and maintaining a diversity policy to outline Virtus' commitment to diversity and inclusion in the workplace and set out a framework to achieve Virtus' diversity goals.

- **Oversight of financial and capital management**

- a. ensuring the integrity of Virtus' financial reporting;
- b. reviewing and approving annual and half-yearly financial reports, having regard to, among other things, the information the directors know about Virtus;
- c. monitoring financial results on an ongoing basis;
- d. establishing and overseeing Virtus' accounting and financial management systems;
- e. considering removal or replacement of the external auditor;
- f. reviewing, approving and monitoring the progress of major capital expenditure, capital management, major acquisitions and divestitures and material commitments;

CORPORATE GOVERNANCE (continued)

- g. approving decisions affecting the capital of Virtus, including capital structure or restructure and major financing arrangements; and
- h. determining the dividend policy of Virtus and determining the details for payment of dividends.

• Compliance and risk management

- a. establishing and overseeing Virtus' control and accountability systems and reviewing reporting under those systems;
- b. establishing, overseeing and regularly reviewing a system for identifying, assessing, monitoring and managing material risk throughout Virtus, and informing investors of material changes to Virtus' risk profile;
- c. establishing, overseeing and regularly reviewing systems of internal compliance, risk management and control, and systems of legal compliance that govern the operations of Virtus, and monitoring that they are operating effectively; and
- d. establishing, overseeing and regularly reviewing written policies, codes and procedures governing compliance and risk oversight and management.

The Board has delegated to the CEO the authority to manage the day to day affairs of Virtus and the authority to control the affairs of Virtus in relation to all matters other than those responsibilities reserved to itself in its charter. The Board may impose further specific limits on CEO delegations. These delegations of authority will be maintained by the Company Secretary and will be reviewed by the Board as appropriate from time to time. The CEO has authority to sub-delegate to the senior management team.

1.3 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. Standing committees established by the Board will adopt charters setting out the authority, responsibility, membership and operation of the committee.

The Board has established the Audit and Risk Committee and the Nomination and Remuneration Committee.

Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities including oversight of:

- the integrity of Virtus' external financial reporting and financial statements;

- the appointment, remuneration, independence and competence of Virtus' external auditors;
- the performance of the external audit function and review of their audit;
- the effectiveness of Virtus' system of risk management and internal controls; and
- Virtus' systems and procedures for compliance with applicable legal regulatory requirements.

The Audit and Risk Committee is chaired by Dennis O'Neill, an independent non-executive director; Peter Macourt and Marcus Darville are also members of the Audit and Risk Committee. The external auditors, CEO and CFO are invited to Audit and Risk Committee meetings at the discretion of the Audit and Risk Committee.

Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee is to assist and advise the Board on the following nomination related matters:

- director selection and appointment practices;
- director performance evaluation processes and criteria;
- Board composition; and
- succession planning for the Board and senior executives, to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Virtus as a whole.

The Nomination and Remuneration Committee also assists and advises the Board on remuneration policies and practices for the Board, the CEO, the CFO, senior executives and other persons whose activities, individually or collectively, affect the financial soundness of Virtus as follows:

- a. The Committee is responsible for developing, reviewing and making recommendations to the Board on:
 - i. the ongoing appropriateness and relevance of the remuneration framework for the chairperson and the non-executive directors;
 - ii. Virtus' policy on remuneration for the CEO and senior executives, any changes to the policy and the implementation of the policy (including any shareholder approvals required);
 - iii. the total remuneration packages for the CEO and senior executives (including base pay, incentive payments, equity based awards, superannuation and other retirement rights, employment contracts), any changes to remuneration packages and recommending proposed awards after performance evaluation procedures;

- iv. Virtus' recruitment, retention and termination policies for the CEO and senior executives and any changes to those policies;
 - v. incentive schemes, if appropriate, for the CEO and senior executives; and
 - vi. equity based plans, if appropriate, for the CEO, senior executives and other employees.
- b. The Committee is also responsible for monitoring and providing input to the Board regarding:
- i. legislative, regulatory or market developments likely to have a significant impact on Virtus and legislative compliance in employment issues;
 - ii. the remuneration trends across Virtus, including
 - A. the trends in base pay for senior management relative to that of all Virtus employees; and
 - B. remuneration by gender; and
 - iii. major changes to employee benefits structures in Virtus.

Incentive schemes and equity based remuneration

For any incentive schemes or equity based plans which are adopted, the Committee is responsible for:

- a. reviewing their terms (including any performance hurdles);
- b. overseeing their administration (including compliance with applicable laws that restrict participants from hedging the economic risk of their security holdings);
- c. considering whether shareholder approval is required or desirable for the schemes or plans and for any changes to them; and
- d. ensuring that payments and awards of equity are made in accordance with their terms and any shareholder approval.

Structure of remuneration

In fulfilling these responsibilities, the Committee will ensure that:

- a. a clear distinction is maintained between the structure of non-executive directors' remuneration and that of executive directors and senior executives;
- b. a proportion of executive directors' and senior executives' remuneration is structured in a manner designed to link rewards to corporate and individual performance (reflecting short and long-term performance objectives appropriate to Virtus circumstances and goals);

- c. any engagement of a remuneration consultant is approved by the Board or the Committee and the remuneration consultant must report its recommendation directly to either or both of the members of the Board (other than an executive director) or members of this Committee;
- d. the Committee and the Board are satisfied with the arrangements put in place to ensure that any remuneration recommendation made by the remuneration consultant is made free from undue influence from any member of the key management personnel to whom the recommendation relates; and
- e. the Committee will provide the Board with information sufficient to ensure that the Board makes an informed decision in relation to the Committee's recommendations.

The Nomination and Remuneration Committee is chaired by Peter Turner, an independent non-executive Director; Peter Macourt and Marcus Darville are also members of the Nomination and Remuneration Committee.

Other committees may be established by the Board as and when required to consider other matters of special importance.

1.4 Advisory Committee

A National Advisory Committee has also been established to drive the strategic direction of Virtus as it relates to clinical, scientific and operational governance. Specifically the National Advisory Committee's role will include matters referred to it by the Board, including:

- providing a forum for sharing any doctor and management concerns or issues with Virtus management;
- providing a forum for agreeing and communicating doctor and management recommendations to the Board on certain matters, either as requested by the Board or at the request of the National Advisory Committee;
- considering and providing input into Virtus' strategy, plans and budgets and monitoring performance against them;
- considering and providing input into the recruitment and succession planning opportunities for new fertility specialists;
- ensuring compliance with legal and regulatory requirements and ensuring that ethical standards of Virtus are maintained;
- ensuring adequate risk management processes exist within Virtus and are complied with; and

CORPORATE GOVERNANCE (continued)

- ensuring that corporate governance initiatives and policy guidelines, as issued by the Board and key managers, are implemented and providing feedback for consideration by the Board.

The National Advisory Committee will comprise a member of the Board who is a fertility specialist, the CEO, the CFO, and key managers (currently the State Managing and Medical Directors respectively of New South Wales, Victoria and Queensland) and up to one fertility specialist shareholder from New South Wales, Queensland and Victoria.

1.5 Diversity policy

Virtus has adopted a diversity policy which sets out Virtus' commitment to diversity and inclusion in the workplace. The diversity policy provides a framework to achieve Virtus' diversity goals and commitment to creating a diverse work environment where everyone is treated fairly and with respect and where everyone feels responsible for the reputation and performance of Virtus. The Board will oversee the implementation of the diversity policy and assess progress in achieving its objectives.

The Board and management believe that Virtus' commitment to this policy contributes to achieving Virtus' corporate objectives and embeds the importance and value of diversity within the culture of Virtus.

Virtus acknowledge that its employees and patients share a diverse range of backgrounds and religious beliefs and practices and Virtus supports tolerance of difference in the workplace. Virtus aim is to provide opportunities that allow individuals to reach their full potential irrespective of an individual's ethnic or cultural background or gender.

Virtus aims to develop and promote a workforce based on inclusion where individuals are respected, supported and provided with appropriate opportunities.

At 30 June 2013, the proportion of female employees within the consolidated entity was 88%, the Board considers this level of gender diversity to be representative of the sector in which the consolidated entity operates. 14% of senior leadership positions (the National Advisory Committee) are held by females and 17% of Virtus' directors are female. The Board has agreed to a target of at least 25% of female board members by November 2014.

1.6 Continuous disclosure policy

Virtus is required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, Virtus will be required to disclose to ASX any information concerning Virtus which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. Virtus is committed to observing its disclosure obligations under ASX Listing Rules and the Corporations Act.

Virtus has adopted a Disclosure Policy which establishes procedures which are aimed at ensuring that directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price sensitive information. Under the Disclosure Policy, the Board will be responsible for managing Virtus' compliance with its continuous disclosure obligations.

The Company Secretary has been nominated as the individual responsible for communications with the ASX. Presentations to analysts on aspects of the Virtus' operations are released to the ASX and posted on its website.

The Disclosure Policy includes policies on Shareholder Communication as follows:

• Communication of information

Virtus will post on its website relevant announcements made to the market and related information after they have been released to the ASX following receipt of confirmation from the ASX. Material price sensitive information will be posted as soon as reasonably practicable after its release to the ASX. Information may also be provided from time to time to the media on behalf of Virtus but not before disclosure to the ASX, even on an embargo basis.

• Analysts and institutional investors

Virtus may conduct briefings for analysts and institutional investors from time to time to discuss matters concerning Virtus. Only the CEO and CFO or approved representatives of Virtus are authorised to speak with analysts and institutional investors.

Before each reporting period, the CEO and CFO will formulate guidelines for briefings for that period. Virtus' policy at these briefings is that:

- a. Virtus will not comment on price sensitive issues not already disclosed to the market; and
- b. any questions raised in relation to price sensitive issues not already disclosed to the market will not be answered or will be taken on notice.

If a question is taken on notice and the answer would involve the release of price sensitive information, the information must be released through the ASX before responding. At or after briefings, the CEO must consider the matters discussed at the briefings to ascertain whether any price sensitive information was inadvertently disclosed.

- **Analyst reports**

If requested, Virtus may review analyst reports. Virtus' policy is that it will only review these reports to clarify historical information and correct factual inaccuracies if this can be achieved using information that has been disclosed to the market generally.

No comment or feedback will be provided on financial forecasts, including profit forecasts prepared by the analyst, or on conclusions or recommendations set out in the report. Virtus will communicate this policy whenever asked to review an analyst report.

- **Inadvertent disclosure or mistaken non-disclosure**

If price sensitive information is inadvertently disclosed or a director or employee becomes aware of information which should be disclosed, the CEO must immediately be contacted so that appropriate action can be taken including, if required, announcing the information through the ASX and then posting it on Virtus' website.

- **Media relations and public statements**

Media relations and communications are the responsibility of Virtus' media relations team. On major matters, the CEO is generally the spokesperson, and on financial matters, the CFO or the CEO may generally speak. Other officers or senior employees may be authorised by the Board or the CEO to speak to the media on particular issues or matters. Any inquiry that refers to market share, financials or any matter which the recipient considers may be price sensitive must be referred to the Company Secretary. No information is to be given to the media on matters which are of general public interest or which may be price sensitive without the approval of the CEO. The guidelines outlined above are subject to any directions given by the Board, either generally or in a particular instance.

- **Reports to shareholders**

Virtus produces half yearly and yearly financial reports and an annual report in accordance with the Corporations Act, the ASX Listing Rules and applicable accounting standards. It seeks to give balanced and understandable information about Virtus and its proposals in its reports to shareholders.

- **Virtus' website**

Virtus' website contains information about Virtus including shareholder communications, announcements made to the market and related information. Investor information is posted in a separate section on the website from other material about Virtus. Relevant press releases, Virtus' financial announcements and financial data and Virtus' charters and policies are also available on the Virtus' website. The website also provides information for shareholders to direct enquiries to Virtus.

- **Use of electronic communication and other technology**

Shareholders will receive information electronically as it is posted on Virtus' website, although shareholders will still have the option of receiving a hard copy of the Annual Report free of charge, the website provides information about how to make this election. Virtus will communicate by post with shareholders who have not elected to receive information electronically. Virtus may consider the use of other reliable technologies as they become widely available.

- **General meetings**

General meetings are used to communicate with shareholders and allow an opportunity for informed shareholder participation. Shareholders are encouraged to attend or, if unable to attend, to vote on the motions proposed by appointing a proxy or using any other means included in the notice of meeting. Virtus conducts its general meetings in accordance with Virtus' constitution, the Corporations Act and the ASX Listing Rules.

- **Notices of meetings**

Virtus seek to ensure that the form, content and delivery of notices of general meetings will comply with Virtus' constitution, the Corporations Act and ASX Listing Rules. Notices of meeting and accompanying explanatory notes aim to clearly, concisely and accurately set out the nature of the business to be considered at the meeting. Virtus will place notices of general meetings and accompanying explanatory material on Virtus' website.

- **Auditor to attend AGM**

The external auditor will attend the annual general meeting and be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.

CORPORATE GOVERNANCE (continued)

• Shareholder privacy

Virtus recognises that privacy is important and will not disclose registered shareholder details unless required by law. Shareholder details will only be used in accordance with applicable privacy laws.

1.7 Securities trading policy

Virtus has adopted a written policy for dealing in securities which is intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act and to establish a best practice procedure in relation to directors', officers', employees', contractors' (including fertility specialists') and their families and associates' dealings in shares in Virtus.

The securities trading policy sets out the restrictions that apply to dealing with shares including "prohibited periods", during which certain persons are generally not permitted to deal with shares along with a procedure under which certain persons are required to submit prior notification and obtain written confirmation prior to dealing in shares outside the "prohibited periods".

1.8 Code of conduct and ethical decision making

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal code of conduct to be followed by the Board along with all employees, officers, contractors, consultants and other persons that act on behalf of Virtus and associates of Virtus. Virtus' code of conduct sets out the values, commitments, ethical standards and policies of Virtus and outlines the standards of conduct expected of Virtus' business and people in a range of circumstances. In particular, the code requires awareness of, and compliance with, Virtus' operating policies and procedures. The key aspects of this code are to:

- act with honesty and integrity in all dealings both internally and externally;
- respect all people, their ideas and cultures and to reflect this respect in all behaviours and actions;
- maintain a safe working environment to safeguard the health and safety of employees, consultants, contractors, customers, suppliers and other persons who visit Virtus' workplaces;
- develop a culture of excellence and deliver quality of service that meets the expectations of customers, regulatory requirements and continuously improves; and
- develop Virtus' people to ensure that patients have access to the best possible care and outcomes.

The code of conduct sets out Virtus' policies on various matters including conflicts of interest, use of Virtus' property, giving or accepting gifts (including money), dealings with politicians and government officials, confidentiality, privacy, fair dealings (in relation to suppliers, competitors and clients), discrimination, bullying, harassment, vilification, health and safety, compliance with laws and regulations, responsibility to shareholders and the financial community, insider trading obligations and whistle-blower protections.

The code also sets out the consequences for a breach of the code of conduct, including the possibility of legal or disciplinary action.

1.9 Managing Business Risk

The risk management aspects of the Audit and Risk Committee's activities are as follows:

- a. preparing a risk profile which describes the material risks facing Virtus including financial and non-financial matters;
- b. regularly reviewing and updating the risk profile;
- c. ensuring that Virtus has an effective risk management system;
- d. assessing and ensuring that there are internal processes for determining and managing key risk areas, such as:
 - i. non-compliance with laws, regulations, standards and best practice guidelines including industrial relations, occupational health and safety, environmental and trade practices laws;
 - ii. important judgments and accounting estimates;
 - iii. business licence requirements;
 - iv. litigation and claims;
 - v. fraud and theft; and
 - vi. relevant business risks not dealt with by other Board committees;
- e. receiving reports concerning material and actual incidents within the risk areas above and ensuring that macro risks are reported to the Board at least annually;
- f. conducting investigations of breaches or potential breaches of internal controls, and incidents within the risk areas above, particularly in relation to accounts and financial reporting;
- g. evaluating the independence of external auditors;
- h. examining and evaluating the effectiveness of the internal control system with management and external auditors and making improvements;

- i. making publicly available a description of Virtus' risk management policy and internal compliance and control system in the corporate governance section of Virtus' website;
- j. encouraging voluntary reporting by employees to the Committee of breaches of internal controls and Virtus policies, and incidents within the risk areas above;
- k. assessing existing controls that management has in place for unusual transactions or transactions with more than an accepted level of risk; and
- l. meeting periodically with key management, external auditors and compliance staff to understand Virtus' control environment.

The Board receives written assurances in the form of a declaration from the CEO and CFO in accordance with section 295A of the Corporations Act stating that:

- the financial records of the company have been properly maintained;
- the financial statements and notes comply in all material respects with the accounting standards;
- the financial statements give a true and fair view, in all material respects, of the company's financial condition and operating results, and
- the statements provided above are based on a system of risk management and internal control which operates effectively in all material respects to financial reporting risk.

Additionally the CEO and CFO are responsible for the identification, assessment, management and reporting of material business risks to the Audit and Risk Committee and the Virtus Board.

ANNUAL REPORT

CONTENTS

Directors' Report	23
Auditor's Independence Declaration	39
Consolidated Statement of Comprehensive Income	41
Consolidated Statement of Financial Position	42
Consolidated Statement of Changes in Equity	43
Consolidated Statement of Cash Flows	44
Notes to the Financial Statements	45
Directors' Declaration	96
Independent Auditor's Report	97
Additional Securities Exchange Information	99
Corporate Directory	inside back cover

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2013.

Directors

The following persons were directors of Virtus Health Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Peter Macourt – Chairman (appointed on 17 May 2013)

Marcus Darville – Former Chairman

Susan Channon

Dennis O'Neill (appointed on 17 May 2013)

Lyndon Hale (appointed on 17 May 2013)

Peter Turner (appointed on 17 May 2013)

Andrew Othen (resigned on 17 May 2013)

Frank Quinn (resigned on 17 May 2013)

John Esler (resigned on 17 May 2013)

John McBain (resigned on 17 May 2013)

John Moller (resigned on 17 May 2013)

Simon Pither (resigned on 17 May 2013)

Alternate directors:

Keith Harrison (resigned on 17 May 2013)

Manuela Toledo (resigned on 17 May 2013)

Michael Chapman (resigned on 17 May 2013)

Principal activities

During the financial year the principal continuing activities of the consolidated entity were the provision of healthcare services which include fertility services, medical day procedure services and medical diagnostic services.

Dividends

Dividends paid during the financial year were as follows:

	2013 \$'000	2012 \$'000
Interim ordinary dividend of 51.5 cents per fully paid share paid in June 2013	28,765	-
Interim ordinary dividend of 82.0 cents per fully paid ordinary share paid in August 2012	45,834	-
	74,599	-

No final dividend has been declared.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$10,104,000 (30 June 2012: \$19,660,000).

A reconciliation of segment earnings before interest, tax, depreciation and amortisation ("EBITDA") to profit before tax for the year is as follows:

	2013 \$'000	2012 \$'000
Segment EBITDA	56,282	51,587
Share-based payment expense	(6,927)	(516)
Initial Public Offering ('IPO') transaction costs	(10,651)	-
Net gain on acquisition of associate	5,670	-
Other non-trading expenses	(945)	(2,363)
EBITDA (reported)	43,429	48,708
Depreciation and amortisation expense	(8,745)	(8,972)
EBIT	34,684	39,736
Interest revenue	452	433
Interest expense	(15,856)	(11,978)
Revaluation of interest rate swap	136	(968)
Amortisation of bank facility fee	(5,061)	(850)
Profit before income tax from continuing activities	14,355	26,373

The consolidated entity continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

For further information on operations, please refer to the Chief Executive's Operating and Financial Review which forms part of this Directors' report.

Significant changes in the state of affairs

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

Acquisition of Maroubra Day Surgery

On 7 August 2012, Virtus Health Limited, through its wholly owned subsidiary IVF Australia Pty Ltd, acquired the remaining 50% of the issued share of Maroubra Day Surgery Pty Ltd for a cash consideration of \$8,103,000. The acquisition was funded by a drawdown from the consolidated entity's capital expenditure facility and existing cash.

DIRECTORS' REPORT

(continued)

Refinancing of the borrowing facility

On 16 August 2012, IVF Finance Pty Limited, a subsidiary of Virtus Health Limited renegotiated the external borrowing facility for a total of \$225,000,000, with an initial expiry date of 17 August 2013. The increase in the borrowings was used to pay an ordinary dividend of \$45,834,000 (82 cents per ordinary share) on 17 August 2012 and a capital return of \$55,336,000 (99 cents per ordinary share) on 7 September 2012.

Listing on ASX and capital raising

On 26 February 2013, the company changed its name and status from Virtus Health Pty Limited to Virtus Health Limited.

On 11 June 2013, IVF Finance Pty Limited drew down a further \$31,166,831 under a short-term bridging facility. The funds were used to pay an ordinary dividend of \$28,765,000 (51.5 cents per ordinary share) on 12 June 2013.

On 11 June 2013, IVF Finance Pty Limited repaid the remaining external borrowings of \$212,500,000.

On 11 June 2013, IVF Finance Pty Limited, negotiated new external borrowing facilities for a total of \$155,000,000 of which \$150,000,000 has an initial expiry date of 11 June 2016. At 30 June 2013, the company has drawn \$145,000,000 in loans and \$4,351,000 in guarantees from these facilities.

On 11 June 2013, the company listed on the Australian Securities Exchange (ASX code: VRT).

Contributed equity increased by \$47,166,000 (from \$184,815,000 to \$231,981,000) as the result of the issue of shares and transaction costs, net of tax. Details of the movements in contributed equity are disclosed in Note 28 of the financial statements.

The cash received from the issue of new share capital was used to pay down existing debt obligations, fund the option adjustment payment, pay the June 2013 interim dividend and pay the IPO transaction costs.

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Based on the long term trend of women in Australia delaying the birth of children and the infertility rate among Australian women aged over 30 continuing to increase as a consequence of a range of social and economic demographic factors, we expect that demand for assisted reproductive services and the associated diagnostic testing and day hospital procedures will continue to increase.

We will continue to invest in our network of fertility clinics and also the clinical and scientific services offered to patients to enable the consolidated entity to meet the increased demand from the Australian market.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Peter Macourt (appointed on 17 May 2013)
Title:	Chairman
Qualifications:	BCom.; ACA; GAICD
Experience and expertise:	Peter is a former director and Chief Operating Officer of News Limited. Whilst at News Limited, he served as a director of Premier Media, Foxtel, Independent Newspapers Limited and a number of subsidiaries and associated companies of The News Corporation Limited.
Other current directorships:	Chairman of SKY Network Television Limited (since August 2002).
Former directorships (in the last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Interests in shares:	18,485 ordinary shares
Interests in options:	None

Name:	Marcus Darville
Title:	Non-Executive Director and Former Chairman
Qualifications:	MA; MBA
Experience and expertise:	Marcus has been a director of Quadrant since 2006 and a director of the company since February 2008. Prior to joining Quadrant, Marcus was the joint Head of Private Equity at AMP and an Investment Manager at NatWest Ventures. Marcus is also a member of the Quadrant Investment Committee and has acted as a director of a number of Quadrant investee companies. Marcus currently serves on the boards of Summerset, iSentia (formerly Media Monitors), Super Amart and Barbeques Galore.
Other current directorships:	Director of Quadrant Limited (since 2006).
Former directorships (in the last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee and the Nomination and Remuneration Committee.
Interests in shares:	None
Interests in options:	None

DIRECTORS' REPORT

(continued)

Name:	Susan Channon
Title:	Chief Executive Officer
Qualifications:	Registered Nurse Div1; OR Management Certificate
Experience and expertise:	Susan (Sue) has held senior management positions in various Australian healthcare organisations for over 20 years. Before her appointment to Chief Executive Officer ('CEO') of the company in November 2010, Sue was CEO of IVF Australia Pty Ltd. Prior to joining the company, Sue was State Manager for NSW and ACT for Medical Imaging Australia, the National Director of Nursing for Mayne Group (now part of Ramsay Health Care), CEO of Kareena Private Hospital, CEO of Castlecrag and Mosman Private Hospital and CEO and Director of Nursing for Castlecrag Private Hospital.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	354,881 ordinary shares (and 93,752 ordinary shares held by a close family member)
Interests in options:	262,500 options over ordinary shares

Name:	Dennis O'Neill (appointed on 17 May 2013)
Title:	Non-Executive Director
Qualifications:	BSc. (Hons) Mech. Eng; CPE (ret), FIEA; FAICD; FAIM
Experience and expertise:	Dennis is the former Chief Executive Officer and Managing Director of Evans Deakin Industries Ltd and United Group Ltd and the former Chairman of Decmil Group Ltd. In March 2009 Dennis was appointed as Chairman and Advisory Chairman of Queensland Fertility Group Pty Ltd. He is also Advisory Chairman to several unlisted companies and is the Steel Supplier Advocate for the Commonwealth Government.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Committee
Interests in shares:	50,000 ordinary shares
Interests in options:	None

Name:	Lyndon Hale (appointed on 17 May 2013)
Title:	Executive Director
Qualifications:	MBBS; FRACOG; CREI
Experience and expertise:	Lyndon has been the Medical Director of Melbourne IVF Pty Ltd since 2008. He is also director of Reproductive Surgery at The Women's Hospital, and is on the board of the Fertility Society of Australia. Lyndon is highly regarded for his knowledge and proactive approach and brings extensive experience in assisted reproduction treatments to the care of his patients.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	823,694 ordinary shares
Interests in options:	None

Name:	Peter Turner (appointed on 17 May 2013)
Title:	Non-Executive Director
Qualifications:	BSc.; MBA; MAICD
Experience and expertise:	Prior to joining the company, Peter served as Executive Director and Chief Operating Officer of CSL Limited and was the founding President of CSL Behring LLC. Peter is currently a non executive director of NPS MedicineWise.
Other current directorships:	None
Former directorships (in the last 3 years):	CSL Limited (Resigned October 2012)
Special responsibilities:	Chair of the Nomination and Remuneration Committee.
Interests in shares:	50,000 ordinary shares
Interests in options:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Glenn Powers joined Virtus as Chief Financial Officer ('CFO') and Company Secretary in August 2008. Prior to joining Virtus, Glenn was CFO and Company Secretary of Tower Software Limited. Glenn has a broad range of experience in private equity backed businesses, working in a range of engineering, electronics, software and service businesses. Glenn has also been a Director for both main and AIM market listed businesses in the UK. Glenn is a Chartered Management Accountant (CMA).

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2013, and the number of meetings attended by each director were:

	FULL BOARD		NOMINATION AND REMUNERATION COMMITTEE		AUDIT AND RISK COMMITTEE	
	Attended	Held	Attended	Held	Attended	Held
Peter Macourt – Chairman	2	2	1	1	1	1
Marcus Darville	9	14	2	3	–	1
Susan Channon	14	14	–	–	–	–
Dennis O'Neill	2	2	–	–	1	1
Lyndon Hale	2	2	1	2	–	–
Peter Turner	2	2	1	1	–	–
Andrew Othen	10	12	–	–	–	–
Frank Quinn	8	12	–	–	–	–
John Esler	10	12	2	2	–	–
John McBain	7	12	–	–	–	–
John Moller	10	12	–	–	–	–
Simon Pither	12	12	2	2	2	2

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

DIRECTORS' REPORT

(continued)

Remuneration report (audited)

The directors present the remuneration report, which outlines the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The information provided in this Remuneration report, which forms part of the Directors' report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

A. Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for delivery of reward. The Board of Directors (the 'Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The role of the Nomination and Remuneration Committee is to assist and advise the Board on the following nomination related matters:

- director selection and appointment practices;
- director performance evaluation processes and criteria;
- Board composition; and
- succession planning for the Board and senior executives.

In consultation with external remuneration consultants (refer to the section 'use of remuneration consultants' below), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity. Key objectives of the remuneration framework are as follows:

Alignment to shareholders' interests; the framework:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests; the framework:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

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

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

Under the Constitution, the directors decide the total amount paid to each director as remuneration for their services as a director to the company. However, under the listing rules of the ASX ('ASX Listing Rules'), the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount agreed by the shareholders at the annual general meeting. This amount has been fixed at \$500,000 with effect from 17 May 2013. Annual directors' fees currently agreed to be paid by the company are \$125,000 to the chairman, Peter Macourt, and \$75,000 to each of the other non-executive directors. In addition, the chairman of the Audit and Risk Committee will be paid \$15,000 annually and each member of this committee, except Marcus Darville, will be paid \$7,500 annually. The chairman of the Nomination and

Remuneration Committee will be paid \$10,000 annually and each member of this committee, except Marcus Darville, will be paid \$5,000 annually. All directors' fees include superannuation at the superannuation guarantee rate for the respective amounts.

Executive remuneration

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

Short-term incentives

The short-term incentives ('STI') program is designed to align the targets of the business units with the targets of those executives in charge of meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

Based on the achievements of Virtus Health Limited, this year the Nomination and Remuneration Committee determined that that executives had achieved the following percentages of their targets:

- Susan Channon – 37%
- Glenn Powers – 44%
- Andrew Othen – 74%
- John Moller – 50%

In making this assessment the Nomination and Remuneration Committee considered the following factors:

- EBITDA targets;
- Market growth; and
- Meeting budget expectations.

In addition to the above, the Nomination and Remuneration Committee awarded Susan Channon and Glenn Powers additional short-term incentives for their efforts during the IPO process.

Long-term incentives

The long-term incentives ('LTI') include long service leave and share-based payments. Share options are awarded to executives at the end of a period of three years based on the achievement of certain vesting conditions. These include increase in shareholders value relative to the entire market and the increase compared to the consolidated entity's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2013.

Options will vest and become exercisable to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied. Vesting conditions may include conditions relating to continuous employment or service, the individual performance of the participant in the plans or the company's performance.

The Board has the discretion to set the terms and conditions on which it will offer options under the plans, including the vesting conditions and different terms and conditions which apply to different participants in a plan.

Upon the satisfaction of the vesting conditions and any other conditions to exercise, each option will convert to a number of shares based on the terms of issue of the options. Options granted to employees, including executive directors, will typically convert on a one-for-one basis.

Participants may be required to pay an exercise price to exercise the options which may be based on the market price of shares at or around the time of the grant of the options. The plans also include flexibility to allow the company to grant options with no exercise price. Participants will not need to pay any money to be granted options under the plans.

Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to performance of the consolidated entity. A portion of bonus and incentive payments are dependent on defined earnings targets being met. The remaining portion of the bonus and incentive payments are at the discretion of the Nomination and Remuneration Committee.

DIRECTORS' REPORT

(continued)

Use of remuneration consultants

During the financial year ended 30 June 2013, the board of the consolidated entity engaged Egan Associates Pty Ltd, remuneration consultants, to review its existing remuneration policies for key management personnel (executives and non-executives) and performance incentives for fertility specialists. The consultants also provided recommendations on how to improve both the STI and LTI programs for the Group Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') respectively. Recommendations were provided to the Nomination and Remuneration Committee, free from influence by members of the key management personnel to whom the recommendations relate. Egan Associates Pty Ltd were paid \$35,962 for these services.

Other information about directors' remuneration

Directors may also be reimbursed for expenses reasonably incurred in attending to the company's affairs. Non-executive directors may be paid such additional or special remuneration as the directors decide is appropriate where a director performs extra work or services which are not in the capacity as a director of the company or a subsidiary. There is no contractual redundancy benefit for directors, other than statutory superannuation contributions.

Share option plan

The company has adopted a new option plan ('Plan') to assist in the reward, motivation and retention of personnel (including executive directors, eligible employees and fertility specialists). The Plan is also designed to recognise the abilities, efforts and contributions of participants to Virtus' performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in the company.

The Plan contemplates the grant of options over shares. There is no ability for the company to provide any cash equivalent on exercise.

The company may offer additional incentive schemes to executive Directors, employees or fertility specialists over time.

Eligibility

Eligibility to participate in the Plan and the number of options offered to each individual participant will be determined by the Board.

Grants of options – Senior executives and employees

It is expected that options may be granted to certain senior executives of the company on an annual basis as part of their annual remuneration review. Generally, vesting conditions attaching to grants of options made to senior executives will relate to the performance of the company over the performance period as well as continued employment. Options may also be granted to

other employees from time to time subject to consideration by the Board.

Susan Channon and Glenn Powers were granted options under the prospectus at the time of Listing. The key terms and conditions attaching to that grant of options are set out below. The Nomination and Remuneration Committee will determine the conditions attaching to any future grants of options to senior executives or other employees.

The options granted to Susan Channon and Glenn Powers are in two tranches, with each tranche subject to two separate vesting conditions which are both based on external measures as follows:

- The hurdle for 50% of the options is based on a share price hurdle which measures the growth in the company's share price over a three year performance period. The number of options that vest will depend on the share price growth ('SPG') of shares over the performance period. The SPG is determined by subtracting the share price at the beginning of the performance period from the share price at the end of the performance period, and dividing that figure by the share price at the beginning of the performance period. No options will vest at growth below 15%. 50% will vest at 15% growth and vesting thereafter will be determined on a straight-line scale with 100% vesting at 50% growth.
- The hurdle for the remaining 50% of the options is based on the company's total shareholder return ('TSR') relative to a peer group of companies in both the S&P ASX 300 Index and the S&P ASX 300 Healthcare Index (weighted 50% each) over the three year performance period. No options will vest if the TSR performance is less than the 50th percentile. 50% of the options 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 is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.

The performance hurdles for each tranche of options are not interdependent, meaning that it is possible for one tranche to vest while the other does not vest. In each case, the performance hurdles will only be measured once and there will be no retesting. Importantly, no value will be received by Susan Channon or Glenn Powers if the performance hurdles are not met and the options do not vest.

The vesting of the options is also subject to continued service by the relevant executive over the relevant performance period.

Grants of options – fertility specialists

As has been the case pre-ASX listing, it is expected that options will be granted on an annual basis to existing fertility specialists who achieve a benchmark level of IVF Cycles above a base or adjusted base number of IVF Cycles completed in one of the financial years ending after June 2008, up to June 2013. The initial benchmark level for new fertility specialists is 50 IVF Cycles and subsequent benchmark levels are at each 50 cycle increment thereafter.

A small number of fertility specialists have recently commenced a contractual relationship with the company and therefore have not been able to complete a number of cycles over a previous 12 month period. To trigger a grant of performance options, the initial benchmark level for these specialists is 50 IVF Cycles. Options will also be granted at each 50 cycle increment thereafter.

In addition, consistent with the practice pre-Listing on the ASX, it is expected that options will also be granted to new fertility specialists upon commencing a contractual relationship with the company post-Listing.

The key terms and conditions to these option grants are set out below:

For existing fertility specialists, options will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the options, conditional upon the fertility specialist performing a number of IVF Cycles in the immediately preceding year not less than 75% of the relevant benchmark in the year pursuant to which the options were awarded.

For fertility specialists who join the company post-Listing, options will generally vest equally in three tranches on the third, fourth and fifth anniversary of the grant of the options, subject to:

- the fertility specialist achieving the relevant benchmark (currently 50 IVF Cycles) in a 12 month period during the two years post commencement of the contractual relationship with Virtus and concurrent grant of options; and
- the fertility specialist then achieving a number of IVF Cycles in the year before the relevant vesting date that is not less than 75% of the benchmark number.

In addition, an option may not be exercised unless it is “in the money” (i.e. if the share price at the relevant time is greater than the share price at the time of the option grant).

Vesting Conditions

Options will vest and become exercisable to the extent that the applicable performance, service, or other Vesting Conditions specified at the time of the grant are satisfied. Vesting Conditions may include conditions relating to continuous employment or service, the individual performance of the participant in the Plan or the company’s performance.

The Board has the discretion to set the terms and conditions on which it will offer options under the Plan, including the Vesting Conditions and different terms and conditions which apply to different participants in the Plan.

Upon the satisfaction of the Vesting Conditions and any other conditions to exercise, each option will convert to a number of shares based on the terms of issue of the options. Options granted to employees (including executive directors) and fertility specialists will typically convert on a one-for-one basis.

Participants may be required to pay an exercise price to exercise the options which may be based on the market price of shares at or around the time of the grant of the options. The Plan also includes flexibility to allow the company to grant options with no exercise price. Participants will not need to pay any money to be granted options under the Plans.

Ranking of shares

Shares issued upon exercise of options granted under the Plan will rank equally with the other issued shares.

Voting and dividend rights

Options do not carry any voting or dividend rights. Shares issued or transferred to participants on exercise of an option carry the same rights and entitlements as other issued shares, including dividend and voting rights.

Approval

Grants of options under the Plan to directors may be subject to the approval of shareholders, to the extent required under the ASX Listing Rules.

Issue or acquisition of shares

Shares allocated to participants in the Plan on the exercise of options may be issued by Virtus or acquired on or off market by the company or its nominee. The company may appoint a trustee to acquire and hold shares on behalf of participants or otherwise for the purposes of the Plan.

No transfer of options

Without the prior approval of the Board, options may not be sold, transferred, encumbered or otherwise dealt with. Further, participants cannot enter into any transaction, scheme or arrangement which hedges or otherwise affects the participant’s economic exposure to the options before they vest.

DIRECTORS' REPORT

(continued)

Lapse of options

Options will lapse if the applicable vesting conditions and any other conditions to exercise are not met during the prescribed period or if they are not exercised before the applicable expiry date.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the directors of Virtus Health Limited and the following persons:

- Keith Harrison – Alternate Director (ceased 17 May 2013)
- Glenn Powers – Group Chief Financial Officer and Company Secretary
- Brendan Ayres – Managing Director, New South Wales
- Steve Zappia – Managing Director, Queensland
- Peter Illingworth – Medical Director, New South Wales
- David Molloy – Medical Director, Queensland

	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
2013							
Non-Executive Directors:							
P Macourt	41,127	-	-	3,702	-	-	44,829
M Darville**	47,500	-	-	-	-	-	47,500
D O'Neill****	86,880	-	-	620	-	-	87,500
P Turner	25,427	-	-	2,288	-	-	27,715
Executive Directors:							
S Channon	397,711	94,385	-	24,362	8,714	25,279	550,451
L Hale	75,000	-	-	-	-	-	75,000
J Moller***	302,711	58,917	-	31,917	-	6,757	400,302
A Othen*	275,588	59,451	-	24,503	6,677	110,968	477,187
Other Key Management Personnel:							
K Harrison*****	202,045	12,000	-	18,372	6,120	-	238,537
G Powers	282,678	74,007	-	25,000	2,771	11,452	395,908
B Ayres*****	47,636	-	-	4,287	-	-	51,923
S Zappia*****	17,996	-	-	1,620	-	-	19,616
P Illingworth	166,885	-	-	-	-	-	166,885
D Molloy	78,220	-	-	-	-	-	78,220
	2,047,404	298,760	-	136,671	24,282	154,456	2,661,573

* Includes Andrew Othen's salary as a director (until 17 May 2013) and as a key management personnel (Managing Director, Victoria).

** Marcus Darville's fees are payable to Quadrant Private Equity Pty Limited.

*** Fees disclosed are for the period to resignation date as a director.

**** Includes consulting fees associated with the IPO.

***** Includes Keith Harrison's salary as a key management personnel and alternate director to 17 May 2013.

***** B. Ayres was designated as a key management personnel on 2 April 2013. S. Zappia was designated as a key management personnel on 20 May 2013. In each case, salary is included from the date of appointment to 30 June 2013.

There was no remuneration for the following directors in the year or in the previous financial year:

- Frank Quinn
- John Esler
- John McBain
- Simon Pither
- Manuela Toledo
- Michael Chapman

The following key management personnel received provider fees for IVF services delivered to patients: John McBain, Manuela Toledo, Lyndon Hale, John Esler, David Molloy, Michael Chapman, Frank Quinn and Peter Illingworth. Details are disclosed in Note 37 to the financial report.

2012	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$
Executive Directors:							
S Channon	365,751	98,670	-	38,018	52,164	24,382	578,985
J Moller	226,519	60,910	67,200	26,123	3,676	40,038	424,466
A Othen	266,997	77,625	-	25,000	2,829	19,246	391,697
Other Key Management Personnel:							
L Hale	75,000	-	-	-	-	-	75,000
K Harrison	212,104	6,606	-	18,868	18,659	-	256,237
G Powers	259,350	72,100	-	26,042	16,882	21,903	396,277
P Illingworth	160,680	-	-	-	-	-	160,680
D Molloy	75,816	-	-	-	-	-	75,816
	1,642,217	315,911	67,200	134,051	94,210	105,569	2,359,158

DIRECTORS' REPORT

(continued)

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

	FIXED REMUNERATION		AT RISK – STI		AT RISK – LTI	
	2013	2012	2013	2012	2013	2012
Non-Executive Directors:						
P Macourt	100%	–%	–%	–%	–%	–%
M Darville	100%	–%	–%	–%	–%	–%
D O'Neill	100%	–%	–%	–%	–%	–%
L Hale	100%	100%	–%	–%	–%	–%
P Turner	100%	–%	–%	–%	–%	–%
Executive Directors:						
S Channon	78%	79%	17%	17%	5%	4%
J Moller	83%	76%	15%	14%	2%	10%
A Othen	65%	75%	12%	20%	23%	5%
Other Key Management Personnel:						
K Harrison	95%	97%	5%	3%	–%	–%
G Powers	78%	76%	19%	18%	3%	6%
B Ayres	100%	–%	–%	–%	–%	–%
S Zappia	100%	–%	–%	–%	–%	–%
P Illingworth	100%	100%	–%	–%	–%	–%
D Molloy	100%	100%	–%	–%	–%	–%

The proportion of the cash bonus paid/payable or forfeited is as follows:

	CASH BONUS PAID PAYABLE		CASH BONUS FORFEITED	
	2013	2012	2013	2012
Executive Directors:				
S Channon	37%	87%	63%	13%
J Moller	50%	48%	50%	52%
A Othen	74%	100%	26%	–%
Other Key Management Personnel:				
K Harrison	100%	100%	–%	–%
G Powers	44%	100%	56%	–%

C Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Susan Channon
Title:	Chief Executive Officer
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	<p>Executive may terminate the employment contract by giving three months' notice in writing. The company may terminate by giving 12 months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the company may terminate the employment contract immediately by notice in writing and without payment in lieu of notice.</p> <p>Upon the termination of the employment contract, the executive will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.</p>

Name:	Glenn Powers
Title:	Chief Financial Officer and Company Secretary
Agreement commenced:	11 June 2013
Term of agreement:	No fixed end date
Details:	<p>Executive may terminate the employment contract by giving three months' notice in writing. The company may terminate by giving six months' notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, the company may terminate the employment contract immediately by notice in writing and without payment in lieu of notice.</p> <p>Upon the termination of the employment contract, the executive will be subject to a restraint of trade period of 12 months. The company may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.</p>

Other key managers

Each of the company's state managing directors, Andrew Othen, Steve Zappia and Brendan Ayres are employed under individual executive services agreements.

These establish:

- total compensation including a base salary, superannuation contribution and incentive arrangements;
- variable notice and termination provisions of up to three months;
- confidentiality provisions;
- leave entitlements, as a minimum, as per the National Employment Standard; and
- restraint provisions.

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

DIRECTORS' REPORT

(continued)

D Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2013.

Options

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

Grant date	Exercisable date	Expiry/ cancellation date	Exercise price	At grant date
17 August 2012	17 August 2012	11 June 2013	\$4.71	\$1.38
24 August 2012	24 August 2012	11 June 2013	\$5.17	\$0.79
7 October 2012	7 October 2012	11 June 2013	\$5.17	\$0.80
11 June 2013	11 June 2016	11 June 2018	\$5.68	\$1.26

Options do not carry any voting or dividend rights. Shares issued or transferred to participants on exercise of an option carry the same rights and entitlements as other issued shares, including dividend and voting rights.

Refer to Section A of this remuneration report for details of the option plan.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

Name	NUMBER OF OPTIONS GRANTED DURING THE YEAR		NUMBER OF OPTIONS VESTED DURING THE YEAR	
	2013	2012	2013	2012
Susan Channon	262,500	-	106,157	5,000
John Moller	-	-	80,497	80,497
Andrew Othen	135,397	-	262,786	-
Glenn Powers	150,000	-	104,176	104,175
Peter Illingworth	50,000	-	435,089	28,491

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

Name	Value of options granted during the year \$	Value of options exercised/cancelled during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Susan Channon	330,750	436,215	-	5
Andrew Othen*	107,866	192,620	-	23
John Moller	-	620,632	-	-
Michael Chapman	-	218,075	-	-
Frank Quinn	-	1,027,175	(42,833)	-
Glenn Powers	189,000	487,542	-	3
Peter Illingworth**	71,500	1,714,564	-	-

* The consolidated entity has agreed to issue 135,397 of options at a value of \$193,618 as part of the IPO listing. Rights to these options were confirmed on 17 June 2013, although the options cannot be formally granted until September 2013.

** The consolidated entity has agreed to issue 50,000 of options at a value of \$71,500 as part of the IPO listing. Rights to these options were confirmed on 17 June 2013, although the options cannot be formally granted until September 2013.

Value of options exercised during the year includes options cancelled during the year.

E Additional information

The revenue and earnings of the consolidated entity for the five years to 30 June 2013 are summarised below:

	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Revenue	186,581	165,119	127,197	116,969	68,328
EBITDA*	43,429	48,708	40,510	33,419	21,621
EBIT	34,684	39,736	32,233	17,713	18,372
Profit/(loss) after income tax	10,104	19,660	15,337	(1,644)	2,772

* EBITDA 2013 is stated before deduction of initial public offering costs. EBITDA 2010 is stated before deduction of contingent equity consideration expense and additional share issue expense relating to the acquisition of Queensland Fertility Group Pty Ltd.

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

	2013	2012	2011	2010	2009
Share price at financial year end (\$A)*	6.45	-	-	-	-
Total dividends declared (cents per share)	133.50	-	-	-	-
Basic earnings per share (cents per share)	17.78	36.73	-	-	-
Diluted earnings per share (cents per share)	16.78	34.22	-	-	-

* Share price is not applicable for the years 2009 to 2012 as the company was not a listed entity in these years.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Virtus Health Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
11 June 2013	11 June 2018	\$5.68	412,500

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

The options issued on 11 June 2013 of 412,500 relate to the Virtus Health Limited Executive Option Plan which is the only plan in place at 30 June 2013.

The consolidated entity has agreed to issue 450,000 options to fertility specialists and 174,082 options to management as part of the IPO listing. Rights to these options were confirmed on 11 June 2013, although the options cannot be formally granted until September 2013. For compliance with AASB 2 'Share-based Payment' it is assumed that 11 June 2013 is the grant date for these options and the share-based payment cost of \$892,437 for these options has been included in the statement of comprehensive income for the year ended 30 June 2013.

Shares issued on the exercise of options

Options were cancelled or exercised on net value as part of an aggregate transaction to establish an aggregate value of shares and options at the time of the Initial Public Offering. Shares were not specifically issued against specific options exercised. There were no shares of Virtus Health Limited issued on the exercise of options from 1 July 2013 and up to the date of this report.

DIRECTORS' REPORT

(continued)

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium of \$72,250 in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001.

Indemnity and insurance of auditor

The company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 34 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 34 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former audit partners of PricewaterhouseCoopers

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

Rounding of amounts

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

Auditor's independence declaration

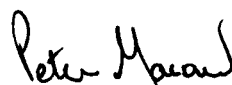
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

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

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

On behalf of the directors



Peter Macourt
Chairman

30 September 2013
Sydney

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Virtus Health Limited and the entities it controlled during the year.

A handwritten signature in black ink that reads 'Eddie Wilkie'.

Eddie Wilkie
Partner
PricewaterhouseCoopers

Sydney
30 September 2013

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

Liability limited by a scheme approved under Professional Standards Legislation.

FINANCIAL REPORT

Contents

	Page
Financial report	
Statement of comprehensive income	41
Statement of financial position	42
Statement of changes in equity	43
Statement of cash flows	44
Notes to the financial statements	45
Directors' declaration	96
Independent auditor's report to the members of Virtus Health Limited	97

General information

The financial report covers Virtus Health Limited as a consolidated entity consisting of Virtus Health Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Virtus Health Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 3
176 Pacific Highway
Greenwich NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 30 September 2013. The directors have the power to amend and reissue the financial report.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

	Notes	CONSOLIDATED	
		2013 \$'000	2012 \$'000
Revenue	4	186,581	165,119
Share of profits of associates accounted for using the equity method	5	282	1,436
Other income	6	5,992	369
Expenses			
Fertility specialists, consumables and associated costs		(55,630)	(44,674)
Employee benefits expense		(56,126)	(47,805)
Depreciation and amortisation expense	8	(8,745)	(8,972)
Occupancy expense		(10,327)	(8,813)
Advertising and marketing		(2,991)	(2,700)
Practice equipment expenses		(1,443)	(1,274)
Professional and consulting fees		(2,072)	(3,017)
Initial Public Offering transaction costs		(10,651)	-
Other expenses		(9,734)	(9,500)
Finance costs	8	(20,781)	(13,796)
Profit before income tax expense		14,355	26,373
Income tax expense	9	(4,251)	(6,713)
Profit after income tax expense for the year attributable to the owners of Virtus Health Limited	30	10,104	19,660
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Virtus Health Limited		10,104	19,660
		Cents	Cents
Basic earnings per share	46	17.78	36.73
Diluted earnings per share	46	16.78	34.22

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		CONSOLIDATED	
	Notes	2013 \$'000	2012 \$'000
Assets			
Current assets			
Cash and cash equivalents	10	12,485	9,439
Trade and other receivables	11	10,278	8,475
Inventories	12	291	-
Income tax refund due	13	1,084	-
Other	14	1,061	1,138
Total current assets		25,199	19,052
Non-current assets			
Investments accounted for using the equity method	15	1,514	3,913
Property, plant and equipment	16	26,579	22,596
Intangibles	17	325,060	312,529
Deferred tax	18	6,877	3,329
Other	19	235	241
Total non-current assets		360,265	342,608
Total assets		385,464	361,660
Liabilities			
Current liabilities			
Trade and other payables	20	17,485	15,450
Borrowings	21	138	14,240
Income tax	22	-	5,320
Provisions	23	2,040	1,561
Other	24	3,157	3,973
Total current liabilities		22,820	40,544
Non-current liabilities			
Borrowings	25	144,058	89,267
Derivative financial instruments	26	-	3,217
Provisions	27	3,997	3,641
Total non-current liabilities		148,055	96,125
Total liabilities		170,875	136,669
Net assets		214,589	224,991
Equity			
Issued capital	28	231,981	184,815
Reserves	29	10,186	3,259
Retained profits/(accumulated losses)	30	(27,578)	36,917
Total equity		214,589	224,991

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

	Issued capital \$'000	Reserves \$'000	Retained profits/ (accumulated losses) \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2011	183,309	2,743	17,257	203,309
Profit after income tax expense for the year	-	-	19,660	19,660
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	19,660	19,660
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (Note 28)	1,506	-	-	1,506
Share-based payments	-	516	-	516
Balance at 30 June 2012	184,815	3,259	36,917	224,991
Consolidated				
Balance at 1 July 2012	184,815	3,259	36,917	224,991
Profit after income tax expense for the year	-	-	10,104	10,104
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	10,104	10,104
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs and option adjustment payments (Note 28)	102,502	-	-	102,502
Share-based payments	-	6,927	-	6,927
Capital return	(55,336)	-	-	(55,336)
Dividends paid (Note 31)	-	-	(74,599)	(74,599)
Balance at 30 June 2013	231,981	10,186	(27,578)	214,589

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

	Notes	CONSOLIDATED	
		2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		184,343	164,125
Payments to suppliers (inclusive of GST)		(128,950)	(112,370)
Other revenue		322	369
Interest and other finance costs paid		(15,597)	(12,813)
Income taxes paid		(12,314)	(10,200)
Net cash from operating activities	44	27,804	29,111
Cash flows from investing activities			
Payments for investments		-	(91)
Payments for acquisition of subsidiary and businesses, net of cash acquired		(7,290)	(4,035)
Payments for property, plant and equipment and intangibles		(10,616)	(8,521)
Proceeds from sale of property, plant and equipment		202	-
Interest received		452	433
Associate distributions received		-	642
Net cash used in investing activities		(17,252)	(11,572)
Cash flows from financing activities			
Proceeds from issue of shares		126,791	-
Payment of dividends		(74,599)	-
Capital return to shareholders		(55,336)	-
Transaction costs incurred in relation to Initial Public Offering		(16,946)	-
Payment for cancellation of options		(23,537)	-
Proceeds from issue of partly paid shares		3,654	-
Proceeds from borrowings		391,046	-
Repayment of borrowings		(355,171)	(14,481)
Payment on termination of hedges		(3,081)	-
Payment for finance lease facility		(327)	(582)
Net cash used in financing activities		(7,506)	(15,063)
Net increase in cash and cash equivalents		3,046	2,476
Cash and cash equivalents at the beginning of the financial year		9,439	6,963
Cash and cash equivalents at the end of the financial year	10	12,485	9,439

The above statement of cash flow should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standard is most relevant to the consolidated entity:

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term 'Statement of profit or loss and other comprehensive income' clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 38.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Virtus Health Limited ('company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Virtus Health Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are identified using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to a patient or customer. Revenue is recognised on completion of a medical procedure, on supply of drugs, or on completion of an analytical test. If payments received from patients exceed the revenue recognised the difference is disclosed as deferred revenue.

Deferred revenue

Fees for fertility treatment cycles paid in advance are recognised as deferred revenue until the service has been provided whereupon the fees are recognised as revenue

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rent

Rent revenue from sub-leases is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Virtus Health Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Inventories

Stock on hand consists of medical supplies used in the diagnostic fertility procedures performed in the consolidated entity's fertility clinics. Stock on hand is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risk associated with a recognised asset or liability or a firm commitment which could affect income or expenses. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associates. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	Over the life of the lease
Furniture and fittings	2 to 10 years
Office equipment	2 to 5 years
Medical equipment	2 to 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 1 and 5 years.

Brand names

Significant costs associated with brand names are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

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

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on finance leases

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. The liability is classified as current as the consolidated entity has no unconditional right to defer settlement.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees and fertility specialists.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and fertility specialists in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes or other appropriate option pricing models that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees or fertility specialists to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity, employee or fertility specialist, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity, employee or fertility specialist and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Profit sharing and bonus plans

The consolidated entity recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The consolidated entity recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Issued capital

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

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Business combinations

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

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the

non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of: (i) 12 months from the date of the acquisition; or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Virtus Health Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable

returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 is not expected to have an impact on the consolidated entity.

AASB 11 Joint Arrangements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, in accordance with the standards applicable to the particular assets, liabilities, revenues and expenses. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

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

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 127 Separate Financial Statements (Revised) AASB 128 Investments in Associates and Joint Ventures (Reissued)

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The latter will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is not expected to have a significant impact on the consolidated entity.

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

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to

individual KMP in the notes to the financial statements and the directors' report. 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 for annual reporting periods beginning 1 July 2013.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the consolidated entity.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039

This amendment is applicable to annual reporting periods beginning on or after 1 January 2013. The amendment removes reference in AASB 1048 following the withdrawal of Interpretation 1039. The adoption of this amendment will not have a material impact on the consolidated entity.

AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments

These amendments are applicable to annual reporting periods beginning on or after 1 January 2013. They amend AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments. The adoption of these amendments will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs to sell. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of the amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial or other appropriate models taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses for impairment indicators, relating to non-financial assets other than goodwill and other indefinite life intangible assets, at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Business combinations

As discussed in Note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Operating segments

Identification of reportable operating segments

AASB 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The consolidated entity currently has three operating segments being New South Wales, Queensland and Victoria. The consolidated entity has determined that a disclosure of one aggregated segment, healthcare services, is most appropriate due to the similar economic characteristics faced by the operating segments and the similar nature of the products and services being delivered to a similar customer base.

Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of comprehensive income.

Revenue from external customers is derived from the provision of healthcare services. A breakdown of revenue and results is provided below:

Segment EBITDA

Segment performance is assessed on the basis of Segment EBITDA. Segment EBITDA comprises expenses which are incurred in the normal trading activity of the segments and excludes the impact of depreciation, amortisation, interest, share-based payments and other items which are determined to be outside of the control of the respective segments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3. Operating segments (continued)

Operating segment information

Consolidated - 2013	Healthcare services \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Revenue			
Sales to external customers	185,304	-	185,304
Intersegment sales	2,660	(2,660)	-
Total sales revenue	187,964	(2,660)	185,304
Other revenue	825	-	825
Interest revenue	452	-	452
Total revenue	189,241	(2,660)	186,581
Segment EBITDA			
Share-based payment expense	(6,927)	-	(6,927)
Initial Public Offering transaction costs	(10,651)	-	(10,651)
Net gain on acquisition of associate	5,670	-	5,670
Other non-trading expenses	(945)	-	(945)
Depreciation and amortisation expenses	(8,745)	-	(8,745)
Interest revenue	452	-	452
Interest expense	(15,856)	-	(15,856)
Revaluation of interest rate swap	136	-	136
Amortisation of bank facility fee	(5,061)	-	(5,061)
Profit before income tax expense	14,355	-	14,355
Income tax expense			(4,251)
Profit after income tax expense			10,104
Assets			
Segment assets	469,441	(94,041)	375,400
<i>Unallocated assets:</i>			
Deferred tax asset			6,877
Cash and cash equivalents			60
Other receivables			312
Income tax refund due			1,084
Intangibles			18
Other			1,713
Total assets			385,464
<i>Total assets includes:</i>			
Investments in associates	1,514	-	1,514
Acquisition of non-current assets	25,787	-	25,787
Liabilities			
Segment liabilities	125,650	(100,533)	25,117
<i>Unallocated liabilities:</i>			
Trade payables			215
Other payables			1,287
Employee provisions			60
Current borrowings			138
Non-current borrowings			144,058
Total liabilities			170,875

Consolidated - 2012	Healthcare services \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Revenue			
Sales to external customers	163,476	-	163,476
Intersegment sales	800	(800)	-
Total sales revenue	164,276	(800)	163,476
Other revenue	1,210	-	1,210
Interest revenue	433	-	433
Total revenue	165,919	(800)	165,119
Segment EBITDA			
Share-based payment expense	(516)	-	(516)
Other non-trading expenses	(2,363)	-	(2,363)
Depreciation and amortisation expenses	(8,972)	-	(8,972)
Interest revenue	433	-	433
Interest expense	(11,978)	-	(11,978)
Revaluation of interest rate swap	(968)	-	(968)
Amortisation of bank facility fee	(850)	-	(850)
Profit before income tax expense	26,373	-	26,373
Income tax expense			(6,713)
Profit after income tax expense			19,660
Assets			
Segment assets	447,415	(91,217)	356,198
<i>Unallocated assets:</i>			
Deferred tax asset			3,329
Cash and cash equivalents			896
Other receivables			210
Intangibles			18
Other			1,009
Total assets			361,660
<i>Total assets includes:</i>			
Investments in associates	3,913	-	3,913
Acquisition of non-current assets	14,226	-	14,226
Liabilities			
Segment liabilities	93,920	(71,076)	22,844
<i>Unallocated liabilities:</i>			
Provision for income tax			5,320
Trade payables			325
Other payables			1,405
Employee provisions			51
Current borrowings			14,240
Non-current borrowings			89,267
Derivative financial instruments			3,217
Total liabilities			136,669

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4. Revenue

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
<i>Sales revenue</i>		
Rendering of services	185,304	163,476
<i>Other revenue</i>		
Interest	452	433
Rent	825	1,210
	1,277	1,643
Revenue	186,581	165,119

Note 5. Share of profits of associates accounted for using the equity method

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Share of profit – associates	282	1,436

Note 6. Other income

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Net gain on acquisition of associate	5,670	–
Trial grants	–	187
Other income	322	182
Other income	5,992	369

Note 7. Reconciliation of gain arising from acquisition of the additional 50% of associate

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
<i>Reconciliation of gain arising from acquisition of the additional 50% of City East Specialist Day Hospital Pty Ltd</i>		
Carrying value of 50% investment	2,433	–
Purchase price for 50% (Note 39)	(8,103)	–
Gain on acquisition of an associate (Note 6)	(5,670)	–

Note 8. Expenses

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	2,825	2,983
Plant and equipment	–	346
Furniture and fittings	291	167
Office equipment	400	503
Medical equipment	2,428	1,627
Total depreciation	5,944	5,626
<i>Amortisation</i>		
Software	1,880	2,436
Brand names	921	910
Total amortisation	2,801	3,346
Total depreciation and amortisation	8,745	8,972
<i>Finance costs</i>		
Interest and finance charges paid/payable	15,856	11,978
Interest rate swaps (net)	(136)	968
Amortisation of bank facility fees	5,061	850
Finance costs expensed	20,781	13,796
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	7,746	6,841
<i>Superannuation expense</i>		
Defined contribution superannuation expense	3,758	3,159
<i>Research costs</i>		
Research costs	2,734	2,806
<i>Share-based payments expense</i>		
Share-based payments expense – fertility specialists	6,380	–
Share-based payments expense – employee benefits	547	516
Total share-based payments expense	6,927	516

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9. Income tax expense

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
<i>Income tax expense</i>		
Current tax	6,112	9,772
Deferred tax – origination and reversal of temporary differences	(1,661)	(1,884)
Adjustment recognised for prior periods	(200)	(1,175)
Aggregate income tax expense	4,251	6,713
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (Note 18)	(1,661)	(1,884)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	14,355	26,373
Tax at the statutory tax rate of 30%	4,307	7,912
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	2,078	134
Research and development	(270)	(169)
Gain on acquisition of associate	(1,701)	-
Other	37	11
	4,451	7,888
Adjustment recognised for prior periods	(200)	(1,175)
Income tax expense	4,251	6,713
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets (Note 18)	(1,887)	-

Note 10. Current assets – cash and cash equivalents

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cash at bank and on hand	12,485	9,439

Note 11. Current assets – trade and other receivables

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Trade receivables	8,162	6,798
Less: Provision for impairment of receivables	(1,229)	(752)
	6,933	6,046
Other receivables	3,345	2,429
	10,278	8,475

Impairment of receivables

The consolidated entity has recognised a loss of \$477,000 (2012: \$407,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2013.

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

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
3 to 6 months overdue	382	144
Over 6 months overdue	847	608
	1,229	752

The nominal value of the impaired receivables is \$1,457,000 (2012: \$900,000).

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

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Opening balance	752	771
Additional provisions recognised	477	445
Receivables written off during the year as uncollectable	-	(464)
Closing balance	1,229	752

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$2,040,000 as at 30 June 2013 (\$2,411,000 as at 30 June 2012).

The consolidated entity did not consider a credit risk on the aggregate balances after reviewing credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
1 to 3 months overdue	2,040	2,411

No collateral is held in relation to the above receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 12. Current assets – inventories

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Stock on hand – at cost	291	–

Note 13. Current assets – income tax refund due

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Income tax refund due	1,084	–

Note 14. Current assets – other

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Prepayments	1,061	1,138

Note 15. Non-current assets – investments accounted for using the equity method

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Investment in associates	1,514	3,913

Refer to Note 41 for further information on investments in associates.

Note 16. Non-current assets – property, plant and equipment

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Leasehold improvements – at cost	27,034	21,621
Less: Accumulated depreciation	(10,456)	(8,374)
	16,578	13,247
Plant and equipment – at cost	1,990	1,990
Less: Accumulated depreciation	(1,990)	(1,990)
	-	-
Furniture and fittings – at cost	1,189	1,173
Less: Accumulated depreciation	(621)	(369)
	568	804
Office equipment – at cost	2,624	2,373
Less: Accumulated depreciation	(1,895)	(1,422)
	729	951
Medical equipment – at cost	16,044	12,295
Less: Accumulated depreciation	(7,340)	(4,701)
	8,704	7,594
	26,579	22,596

Reconciliations

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

	Leasehold improvements \$'000	Plant and equipment \$'000	Furniture and fittings \$'000	Office equipment \$'000	Medical equipment \$'000	Total \$'000
Consolidated						
Balance at 1 July 2011	13,996	346	199	743	4,875	20,159
Additions	2,196	-	772	799	3,856	7,623
Additions through business combinations (Note 39)	38	-	-	8	498	544
Disposals	-	-	-	(96)	(8)	(104)
Depreciation expense	(2,983)	(346)	(167)	(503)	(1,627)	(5,626)
Balance at 30 June 2012	13,247	-	804	951	7,594	22,596
Additions	6,244	-	141	188	3,350	9,923
Additions through business combinations (Note 39)	99	-	-	31	402	532
Disposals	(187)	-	(86)	(41)	(214)	(528)
Depreciation expense	(2,825)	-	(291)	(400)	(2,428)	(5,944)
Balance at 30 June 2013	16,578	-	568	729	8,704	26,579

Property, plant and equipment secured under finance leases

Refer to Note 36 for further information on property, plant and equipment secured under finance leases.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 17. Non-current assets - intangibles

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Goodwill - at cost	319,029	304,357
	319,029	304,357
Software - at cost	10,943	9,972
Less: Accumulated amortisation	(9,950)	(7,759)
	993	2,213
Brand names - at cost	9,095	9,095
Less: Accumulated amortisation	(4,057)	(3,136)
	5,038	5,959
	325,060	312,529

Reconciliations

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

	Goodwill \$'000	Software \$'000	Brand names \$'000	Total \$'000
Consolidated				
Balance at 1 July 2011	299,196	3,751	6,869	309,816
Additions	-	898	-	898
Additions through business combinations (Note 39)	5,161	-	-	5,161
Amortisation expense	-	(2,436)	(910)	(3,346)
Balance at 30 June 2012	304,357	2,213	5,959	312,529
Additions	-	660	-	660
Additions through business combinations (Note 39)	14,672	-	-	14,672
Amortisation expense	-	(1,880)	(921)	(2,801)
Balance at 30 June 2013	319,029	993	5,038	325,060

Impairment tests for goodwill

Goodwill is allocated to the group's cash generating units ('CGUs') identified according to operating segment:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
New South Wales	114,881	100,209
Victoria	124,904	124,904
Queensland	79,244	79,244
	319,029	304,357

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond the one year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the business.

Key assumptions used for value in use calculations

Long term growth rate

New South Wales – 4% (2012: 3%)

Victoria – 4% (2012: 3%)

Queensland – 4% (2012: 3%)

Pre-tax discount rate

New South Wales – 12% (2012: 16%)

Victoria – 12% (2012: 16%)

Queensland – 12% (2012: 16%)

These assumptions have been used for the analysis of each CGU within the business segment. The equity rates of return and therefore discount rates reflect specific risks relating to the relevant segments. In performing the value-in-use calculations for each CGU, the consolidated entity has applied post tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

Impact of possible changes in assumptions

A reasonable possible change in assumptions would not cause the carrying amount of each CGU to exceed its recoverable amount.

Note 18. Non-current assets – deferred tax

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
<i>Deferred tax assets comprise temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	349	226
Property, plant and equipment	(759)	(722)
Employee benefits	2,177	1,837
Provision for lease make good	795	703
Accrued expenses	660	591
Financial derivatives	-	965
Intangible assets	(1,512)	(1,788)
Other	3,280	1,517
	4,990	3,329
Amounts recognised in equity:		
Transaction costs on share issue	1,887	-
Deferred tax assets	6,877	3,329
Deferred tax assets to be recovered within 12 months	2,692	817
Deferred tax assets to be recovered after more than 12 months	4,185	2,512
	6,877	3,329

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 18. Non-current assets – deferred tax (continued)

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Movements:		
Opening balance	3,329	1,426
Credited to profit or loss (Note 9)	1,661	1,884
Credited to equity	1,887	–
Additions through business combinations (Note 39)	–	19
Closing balance	6,877	3,329

Note 19. Non-current assets – other

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Security deposits	235	241

Note 20. Current liabilities – trade and other payables

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Trade payables	6,524	5,765
Other payables	10,961	9,685
	17,485	15,450

Refer to Note 32 for further information on financial instruments.

Note 21. Current liabilities – borrowings

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Bank loans	–	14,000
Lease liability	138	240
	138	14,240

Refer to Note 25 for further information on assets pledged as security and financing arrangements and Note 32 for further information on financial instruments.

Note 22. Current liabilities – income tax

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Provision for income tax	–	5,320

Note 23. Current liabilities – provisions

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Employee benefits	2,040	1,561

Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Long service leave obligation expected to be settled after 12 months	1,460	1,117

Note 24. Current liabilities – other

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Deferred revenue	3,157	3,973

Note 25. Non-current liabilities – borrowings

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Bank loans	143,879	88,943
Lease liability	179	324
	144,058	89,267

Refer to Note 32 for further information on financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 25. Non-current liabilities – borrowings (continued)

Bank loans

Subsequent to 30 June 2013, IVF Finance Pty Limited, a subsidiary of Virtus Health Limited, entered into a cashflow hedge locking in \$50,000,000 of borrowings at BBSW + 2.915%. Bank loans consist of \$145,000,000 (includes \$5,000,000 working capital) borrowed netted with capitalised borrowing costs of \$1,121,000.

Total secured liabilities

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

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Bank loans	143,879	102,943
Lease liability	317	564
	144,196	103,507

Assets pledged as security

The bank loans are secured by guarantees by all group companies and fixed and floating charges over the consolidated entity's assets.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

The assets of City West Specialist Day Hospital Pty Ltd and Obstetrics & Gynaecological Imaging Australia Pty Limited (2012: City East Specialist Day Hospital Pty Ltd, City West Specialist Day Hospital Pty Ltd and Obstetrics & Gynaecological Imaging Australia Pty Limited) are excluded from the assets pledged as security. However the shares representing the 50% interest are included in the charges over the consolidated entity.

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

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cash and cash equivalents	12,485	9,439
Receivables	10,278	8,475
Inventories	291	-
Income tax refund due	1,084	-
Other current assets	1,061	1,138
Investments	1,514	3,913
Plant and equipment	26,579	22,596
Intangible assets (excluding goodwill)	6,031	8,172
Deferred tax assets	6,877	3,329
Other financial assets	235	241
	66,435	57,303

Financing arrangements

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

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Total facilities		
Bank loans*	140,000	106,061
Working capital facilities*	15,000	5,000
	155,000	111,061
Used at the reporting date		
Bank loans*	140,000	102,943
Working capital facilities*	9,351	3,653
	149,351	106,596
Unused at the reporting date		
Bank loans*	-	3,118
Working capital facilities*	5,649	1,347
	5,649	4,465

* Credit facilities expire in June 2016 apart from \$5,000,000 which expires on 31 December 2013.

The company and consolidated entity has complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2013 and 30 June 2012.

Working capital facilities utilised consist of \$5,000,000 of borrowings plus \$4,351,000 of bank guarantees.

As at 31 December 2013, working capital facilities will reduce from \$15,000,000 to \$10,000,000 and all working capital facilities utilised in excess of that amount will be settled.

Note 26. Non-current liabilities – derivative financial instruments

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Interest rate swap contracts – cash flow hedges	-	3,217

Refer to Note 32 for further information on financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 27. Non-current liabilities – provisions

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Employee benefits	1,349	1,296
Lease make good	2,648	2,345
	3,997	3,641

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove certain leasehold improvements. The provision will be utilised at the end of the leases if they are not renewed. The estimated future cash outflow required to settle the obligation is discounted at 3.82% (2012: 3.04%) per annum. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Lease make good \$'000
Consolidated – 2013	
Carrying amount at the start of the year	2,345
Additional provisions recognised	582
Amounts used	(209)
Change in provision from re-measurement	(140)
Unwinding of discount	70
Carrying amount at the end of the year	2,648

Note 28. Equity – issued capital

	CONSOLIDATED		CONSOLIDATED	
	2013 Shares	2012 Shares	2013 \$'000	2012 \$'000
Ordinary shares – fully paid	79,536,601	53,644,738	231,981	184,815

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2011	53,324,938		183,309
Shares issued – acquisition consideration	28 July 2011	212,315	\$4.71	1,000
Shares issued – acquisition consideration	23 May 2012	107,485	\$4.71	506
Balance	30 June 2012	53,644,738		184,815
Subscription for new shares*	17 August 2012	2,250,000	\$0.91	2,036
Capital return	7 September 2012	–	\$0.99	(55,336)
Shares issued – exercise of 2012 options	29 November 2012	2	\$4.71	–
Shares issued – Initial Public Offering	11 June 2013	22,322,396	\$5.68	126,791
Call in arrears paid*	11 June 2013	–	\$0.26	1,618
Shares issued as part of cancellation/exercise of options****	11 June 2013	1,319,465	\$5.68	7,494
Option adjustment payment**	11 June 2013	–	–	(31,033)
Share issue transaction costs (net of tax)	11 June 2013	–	–	(4,404)
Balance***	30 June 2013	79,536,601		231,981

* Shares were issued at \$4.71 per share and are partly paid. An additional payment of 25.73 cents per share was made against these partly paid shares on 11 June 2013.

** Option adjustment payments were paid to option holders in lieu of receiving shares, dividends and capital returns that were paid to ordinary shareholders prior to the initial public offering. As at the date of payment, all options had fully vested and were convertible to shares.

*** All shares on issue are fully paid apart from 2,250,000 shares which are partly paid. The 2,250,000 shares were issued at \$4.71 per share and are paid up to the extent of \$1.17 per share at 30 June 2013.

**** Options were cancelled or exercised on net value as part of an aggregate transaction to establish an aggregate value of shares and options at the time of the Initial Public Offering. Shares were not specifically issued against specific options exercised.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 29. Equity – reserves

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Share-based payments reserve	10,186	3,259
	Share-based payments \$'000	Total \$'000
Consolidated		
Balance at 1 July 2011	2,743	2,743
Option expense	516	516
Balance at 30 June 2012	3,259	3,259
Option expense	6,927	6,927
Balance at 30 June 2013	10,186	10,186

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and fertility specialists as part of their performance incentives.

Note 30. Equity – retained profits/(accumulated losses)

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Retained profits at the beginning of the financial year	36,917	17,257
Profit after income tax expense for the year	10,104	19,660
Dividends paid (Note 31)	(74,599)	–
Retained profits/(accumulated losses) at the end of the financial year	(27,578)	36,917

Note 31. Equity – dividends

Dividends

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Interim ordinary dividend of 51.5 cents per fully paid share paid in June 2013	28,765	–
Interim ordinary dividend of 82.0 cents per fully paid ordinary share paid in August 2012	45,834	–
	74,599	–

No final dividend has been declared.

Franking credits

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	920	32,079

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 32. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity is not exposed to any significant foreign currency risk.

Price risk

The consolidated entity is exposed to changes in Commonwealth Government funding for the healthcare services the consolidated entity provides which may impact patient out-of-pocket expenses and thus demand.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk. The policy is to maintain approximately 30% of borrowings at fixed rate using interest rate swaps to achieve this when necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 32. Financial instruments (continued)

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

	2013		2012	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Bank loans	4.93	143,879	8.10	102,943
Interest rate cap	-	-	7.86	(6,435)
Interest rate swaps (notional principal amount)	-	-	6.36	(60,183)
Net exposure to cash flow interest rate risk		143,879		36,325

Subsequent to the year end the consolidated entity entered into an interest rate swap contract hedging \$50,000,000 of its borrowings.

An analysis by remaining contractual maturities is shown in the 'liquidity and interest rate risk management' section below.

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
	Basis points change	Effect on profit after tax	Effect on equity	Basis points change	Effect on profit after tax	Effect on equity
Consolidated - 2013						
Bank loans	100	(\$1,007,300)	(\$1,007,300)	(100)	\$1,007,300	\$1,007,300
Consolidated - 2012						
Bank loans	100	(\$721,601)	(\$721,601)	(100)	\$721,601	\$721,601

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Receivables balances and ageing analysis are monitored on an on-going basis. In order to minimise the consolidated entity's exposure to bad debts, processes are in place to send reminder notices, demands for repayment and ultimately to refer to debt collection agencies.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Bank loans	-	3,118
Working capital facilities	5,649	1,347
	5,649	4,465

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 2013						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	6,524	-	-	-	6,524
Other payables	-	10,961	-	-	-	10,961
<i>Interest-bearing - variable rate</i>						
Bank loans	4.93	7,148	7,148	151,776	-	166,072
Lease liability	8.15	138	217	-	-	355
Total non-derivatives		24,771	7,365	151,776	-	183,912
Consolidated - 2012						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	5,765	-	-	-	5,765
Other payables	-	9,685	-	-	-	9,685
<i>Interest-bearing - variable rate</i>						
Bank loans	8.10	22,320	104,354	-	-	126,674
Lease liability	8.15	285	166	188	-	639
Total non-derivatives		38,055	104,520	188	-	142,763
Derivatives						
Interest rate swaps net settled	-	-	3,217	-	-	3,217
Total derivatives		-	3,217	-	-	3,217

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 32. Financial instruments (continued)

Fair value of financial instruments

The following tables detail the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

CONSOLIDATED 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Liabilities				
Derivative financial liabilities	-	3,217	-	3,217
Total liabilities	-	3,217	-	3,217

There were no transfers between levels during the financial year.

There were no derivative financial assets or liabilities as at 30 June 2013.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 33. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	CONSOLIDATED	
	2013 \$	2012 \$
Short-term employee benefits	2,346,164	2,025,328
Post-employment benefits	136,671	134,051
Long-term benefits	24,282	94,210
Share-based payments	154,456	105,569
	2,661,573	2,359,158

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2013	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Peter Macourt	-	-	18,485	-	18,485
Susan Channon	529,146	-	28,846	(109,359)	448,633
Dennis O'Neill	-	-	50,000	-	50,000
Lyndon Hale	1,224,173	-	34,599	(435,078)	823,694
Peter Turner	-	-	50,000	-	50,000
Frank Quinn*	1,127,702	-	3,692	(1,131,394)	-
John Esler*	509,830	-	-	(509,830)	-
John McBain*	1,632,231	-	50,727	(1,682,958)	-
John Moller	219,984	-	-	(219,984)	-
Keith Harrison*	415,983	-	-	(415,983)	-
Manuela Toledo*	778,620	-	45,003	(823,623)	-
Michael Chapman*	915,436	-	-	(915,436)	-
Glenn Powers	-	-	114,150	-	114,150
David Molloy	667,900	-	-	(267,272)	400,628
Peter Illingworth	287,847	-	366,176	-	654,023
	8,308,852	-	761,678	(6,510,917)	2,559,613

* Disposals/other includes disposals and removal of shareholding from listing as no longer key management personnel at 30 June 2013.

2012	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Susan Channon	529,146	-	-	-	529,146
Lyndon Hale	1,224,173	-	-	-	1,224,173
Frank Quinn	1,127,702	-	-	-	1,127,702
John Esler	509,830	-	-	-	509,830
John McBain	1,632,231	-	-	-	1,632,231
John Moller	219,984	-	-	-	219,984
Keith Harrison	415,983	-	-	-	415,983
Manuela Toledo	778,620	-	-	-	778,620
Michael Chapman	915,436	-	-	-	915,436
David Molloy	667,900	-	-	-	667,900
Peter Illingworth	287,847	-	-	-	287,847
	8,308,852	-	-	-	8,308,852

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 33. Key management personnel disclosures (continued)

Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2013	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Susan Channon	202,133	262,500	(202,133)	-	262,500
Andrew Othen	127,389	135,397	(262,786)	-	-
John Moller	241,491	-	(241,491)	-	-
Michael Chapman	87,500	-	(87,500)	-	-
Frank Quinn	357,500	-	(341,166)	(16,334)	-
Glenn Powers	312,527	150,000	(312,527)	-	150,000
Peter Illingworth	457,150	50,000	(507,150)	-	-
	1,785,690	597,897	(1,954,753)	(16,334)	412,500

2013

No options on issue at 30 June 2013 are vested and exercisable.

2012	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Susan Channon	202,133	-	-	-	202,133
Andrew Othen	127,389	-	-	-	127,389
John Moller	241,491	-	-	-	241,491
Michael Chapman	87,500	-	-	-	87,500
Frank Quinn	357,500	-	-	-	357,500
Glenn Powers	312,527	-	-	-	312,527
Peter Illingworth	457,150	-	-	-	457,150
	1,785,690	-	-	-	1,785,690

2012	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
Susan Channon	95,976	-	95,976
John Moller	160,994	-	160,994
Michael Chapman	87,500	-	87,500
Frank Quinn	107,500	-	107,500
Glenn Powers	208,351	-	208,351
Peter Illingworth	83,888	-	83,888
	744,209	-	744,209

Related party transactions

Related party transactions are set out in Note 37.

Note 34. Remuneration of auditors

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

	CONSOLIDATED	
	2013 \$	2012 \$
Audit services - PricewaterhouseCoopers		
Audit or review of the financial statements	470,750	485,000
Other services - PricewaterhouseCoopers		
Tax compliance services	78,150	82,250
Advisory and tax fees for Initial Public Offering, refinancing and trade sale considerations	1,667,065	610,000
	1,745,215	692,250
	2,215,965	1,177,250

It is the consolidated entity's policy to utilise appropriate accounting and consulting resource for other services which may include tax advice and due diligence reporting on acquisitions, and it is the consolidated entity's policy to seek competitive tenders for such assignments as appropriate.

Note 35. Contingent liabilities

Claims

The consolidated entity is currently involved in litigations which may result in future liabilities and legal fees up to an insurance excess of \$100,000. The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not be significant and will be covered by the consolidated entity's insurance policies.

Guarantees

Drawdowns of \$4,351,000 in the form of financial guarantees have been made against the working capital facility. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 3 years (2012: 2 years).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 36. Commitments

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	358	236
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	7,599	5,559
One to five years	17,902	12,761
More than five years	7,922	1,600
	33,423	19,920
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	138	285
One to five years	217	354
Total commitment	355	639
Less: Future finance charges	(38)	(75)
Net commitment recognised as liabilities	317	564
Representing:		
Lease liability - current (Note 21)	138	240
Lease liability - non-current (Note 25)	179	324
	317	564

Operating lease commitments includes contracted amounts for various offices and medical centres under non-cancellable operating leases expiring within 2 to 8 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. Excess office space is sub-let to third parties also under non-cancellable operating leases. These leases have future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases of \$983,778 (2012: \$126,547).

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$nil (30 June 2012: \$564,000) under finance leases expiring within 1 to 4 years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 37. Related party transactions

Parent entity

Virtus Health Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 40.

Associates

Interests in associates are set out in Note 41.

Key management personnel

Disclosures relating to key management personnel are set out in Note 33 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	CONSOLIDATED	
	2013 \$	2012 \$
Sale of goods and services:		
Rental income	136,992	159,955
Other transactions:		
Fees paid to related party for services to the Board of the ultimate Australian parent entity	50,000	50,000
Rental expense in respect of property at St George Private Hospital, Kogarah ⁱ	164,840	171,434
Rental expense in respect of property at 9 Scott Street, Toowoomba ⁱⁱ	61,490	59,124
Rental expense in respect of property at 225 Wickham Terrace, Brisbane ⁱⁱⁱ	8,640	26,640
Provider fees ^{iv}	5,538,583	5,978,202
Share-based payments ^v	141,749	83,331
Quadrant Private Equity Pty Limited ^{vi}	988,352	829,764

- A director, Michael Chapman, is a director and shareholder of Bridgemyth Pty Limited. IVF Australia Pty Limited renewed its contract with Bridgemyth Pty Limited to rent property at St George Private Hospital, Kogarah from 1 July 2010. The contract is based on normal commercial terms and conditions.
- A director, John Esler, is a director and shareholder of Dendeen Pty Limited. Queensland Fertility Group Pty Limited entered into a contract with Dendeen Pty Limited to rent property at 9 Scott Street, Toowoomba commencing 1 August 2007. The contract is based on normal commercial terms and conditions.
- A director, Keith Harrison is a director and shareholder of Keith Harrison Pty Limited. Queensland Fertility Group Pty Limited entered into a contract with Keith Harrison Pty Limited to rent property at 225 Wickham Terrace, Brisbane commencing 1 September 2008. The contract is based on normal commercial terms and conditions.
- The following key management personnel received provider fees for IVF services delivered to patients: John McBain, Manuela Toledo, Lyndon Hale, John Esler, David Molloy, Michael Chapman, Frank Quinn and Peter Illingworth.
- The following key management personnel received share-based payments: John McBain, Manuela Toledo, Lyndon Hale, John Esler, David Molloy, Michael Chapman, Frank Quinn and Peter Illingworth.
- Quadrant Private Equity Pty Limited, a related party through common directorship, incurred costs resulting from an aborted trade sale process which were subsequently reimbursed by Virtus Health Limited.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	CONSOLIDATED	
	2013 \$	2012 \$
Current receivables:		
Trade receivables from associate	780,179	580,731
Other receivables	15,968	24,682
Current payables:		
Trade payables to associate	-	26,640
Other payables	567,347	548,591
Distributions received in advance from associate	-	81,726

Loans to/from related parties

Virtus Health Limited is responsible for the consolidated entity's strategy and raising equity capital. IVF Finance Pty Limited is responsible for debt finance and making acquisitions on behalf of the consolidated entity. IVF Australia Pty Limited, The Heptarchy Trust, Queensland Fertility Group Pty Limited and North Shore Specialist Day Surgery Pty Limited employ the medical and other staff including certain directors. The proceeds of any issue of shares by Virtus Health Limited are passed to IVF Finance Pty Limited as an interest free loan. IVF Finance Pty Limited uses the funds for acquisitions and to repay debt.

Terms and conditions

All transactions with related parties outside of the consolidated entity were made on normal commercial terms and conditions and at market rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 38. Parent entity information

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

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Statement of comprehensive income		
Profit/(loss) after income tax	125,387	(2,577)
Total comprehensive income	125,387	(2,577)
Statement of financial position		
Total current assets	3,632	824
Total assets	264,167	192,618
Total current liabilities	1,568	13,256
Total liabilities	1,684	13,256
Net assets	262,483	179,362
Equity		
Issued capital	231,981	184,815
Share-based payments reserve	6,640	2,891
Retained profits/(accumulated losses)	23,862	(8,344)
Total equity	262,483	179,362

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2012.

The parent entity is party to a deed of cross guarantee at 30 June 2013 along with certain subsidiaries it controls. Details of the deed are provided in Note 42.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2013 and 30 June 2012.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2013 and 30 June 2012.

Significant accounting policies

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

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

Note 39. Business combinations

Maroubra Day Surgery Pty Ltd (now known as City East Specialist Day Hospital Pty Ltd)

On 7 August 2012, Virtus Health Limited acquired the remaining 50% of the ordinary shares of Maroubra Day Surgery Pty Ltd (now known as City East Specialist Day Hospital Pty Ltd) for the total consideration of \$8,103,000. The goodwill of \$14,672,000 represents the assembled workforce and location of Maroubra Day Surgery Pty Ltd. The acquired business contributed revenues of \$6,612,000 and profit before tax of \$1,399,000 to the consolidated entity for the period from 7 August 2012 to 30 June 2013. If the acquisition occurred on 1 July 2012, the full year contributions would have been revenues of \$6,966,000 and profit before tax of \$1,380,000. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2012, together with the consequential tax effects. The values identified in relation to the acquisition of Maroubra Day Surgery Pty Ltd are final as at 30 June 2013.

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	813	813
Trade receivables	1,004	1,004
Inventories	252	-
Other current assets	-	82
Plant and equipment	532	532
Goodwill	1,260	-
Trade payables	(587)	(587)
Other provisions	(310)	(310)
Net assets acquired	2,964	1,534
Goodwill		14,672
Acquisition-date fair value of the total consideration transferred		16,206
Representing:		
Cash paid to vendor		8,021
Amounts owed by associate		82
Fair value of initial 50% interest		8,103
		16,206

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	16,206	-
Less: cash and cash equivalents acquired	(813)	-
Less: fair value of initial 50% interest	(8,103)	-
Net cash used	7,290	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 39. Business combinations (continued)

Queensland Fertility Group Gold Coast Pty Ltd and its subsidiary Gold Coast Obstetrics & Gynaecology Specialist Services Pty Limited (comparative period)

On 29 July 2011, Virtus Health Limited, through its wholly-owned subsidiary Queensland Fertility Group Pty Ltd, acquired 100% of the ordinary shares of Queensland Fertility Group Gold Coast Pty Ltd and its subsidiary Gold Coast Obstetrics & Gynaecology Specialist Services Pty Ltd ('Fertility Gold Coast') for the total consideration transferred of \$5,063,000. The values identified in relation to the acquisition of Fertility Gold Coast are final.

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	86	86
Trade receivables	100	100
Plant and equipment	170	170
Deferred tax assets	19	19
Trade payables	(104)	(104)
Employee benefits	(49)	(49)
Other provisions	(54)	(54)
Deferred revenue	(57)	(57)
Net assets acquired	111	111
Goodwill		4,952
Acquisition-date fair value of the total consideration transferred		5,063
Representing:		
Cash paid to vendor		3,557
Fair value of equity instruments issued		1,506
		5,063

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cash used to acquire business, net of cash acquired:		
Cash paid to vendor	-	3,557
Less: cash and cash equivalents acquired	-	(86)
Net cash used	-	3,471

Mackay Specialist Day Hospital Pty Limited (comparative period)

On 31 January 2012, Virtus Health Limited, through its wholly-owned subsidiary Queensland Fertility Group Pty Limited, acquired 100% of the ordinary shares of Mackay Specialist Day Hospital Pty Limited for the total consideration transferred of \$564,000. The values identified in relation to the acquisition of Mackay Specialist Day Hospital Pty Limited are final.

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Plant and equipment	374	374
Other liabilities	(19)	(19)
Net assets acquired	355	355
Goodwill		209
Acquisition-date fair value of the total consideration transferred		564
Representing:		
Cash paid to vendor		564

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cash used to acquire business, net of cash acquired:		
Cash paid to vendor	-	564
Net cash used	-	564

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 40. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

Name of entity	Country of incorporation	EQUITY HOLDING	
		2013 %	2012 %
IVF Finance Pty Limited	Australia	100.0	100.0
IVFA Sub-Holdings Pty Ltd	Australia	100.0	100.0
IVF Australia Pty Ltd	Australia	100.0	100.0
Melbourne IVF Holdings Pty Ltd	Australia	100.0	100.0
Melbourne I.V.F. Pty. Ltd.	Australia	100.0	100.0
The Heptarchy Trust	Australia	100.0	100.0
North Shore Specialist Day Hospital Pty Ltd	Australia	100.0	100.0
Queensland Fertility Group Pty. Ltd.	Australia	100.0	100.0
IVF Australia Plan Management Pty Ltd	Australia	100.0	100.0
North Shore A.R.T. Pty. Ltd.	Australia	100.0	100.0
IVF Australia Participants Pty Ltd	Australia	100.0	100.0
IVF South Pty Limited	Australia	100.0	100.0
City West IVF Pty Ltd	Australia	100.0	100.0
Spring Hill Specialist Day Hospital Pty Limited	Australia	100.0	100.0
The QFG Day Theatres Unit Trust	Australia	100.0	100.0
Hunter Fertility Pty. Limited	Australia	100.0	100.0
Hunter IVF Pty. Limited	Australia	100.0	100.0
Hunter Fertility Unit Trust	Australia	100.0	100.0
Bremiera Pty Limited	Australia	100.0	50.0
Queensland Fertility Group Gold Coast Pty Ltd	Australia	100.0	100.0
Gold Coast Obstetrics & Gynaecology Specialist Services Pty Ltd	Australia	100.0	100.0
Mackay Specialist Day Hospital Pty Limited	Australia	100.0	100.0
Maroubra Day Surgery Trust	Australia	100.0	50.0
City East Specialist Day Hospital Pty Ltd*	Australia	100.0	50.0
Virtus Health Singapore Pte Ltd	Singapore	100.0	-

* Formerly known as Maroubra Day Surgery Pty Ltd, name changed on 3 August 2012.

Note 41. Investments in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates is set out below:

Associate	Principal activities	CONSOLIDATED PERCENTAGE INTEREST	
		2013 %	2012 %
City East Specialist Day Hospital Pty Ltd*	Provision of medical services	–	50.0
Obstetrics & Gynaecological Imaging Australia Pty Limited	Provision of medical services	50.0	50.0
City West Specialist Day Hospital Pty Ltd	Provision of medical services	50.0	50.0

* During the financial year the consolidated entity acquired the remaining 50% of City East Specialist Day Hospital Pty Ltd, and is now consolidated. Refer to Note 39.

Information relating to the associates is set out below.

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Share of assets and liabilities		
Current assets	341	2,562
Non-current assets	1,781	2,543
Total assets	2,122	5,105
Current liabilities	608	1,192
Total liabilities	608	1,192
Net assets	1,514	3,913
Share of revenue, expenses and results		
Revenue	2,480	6,335
Expenses	(2,198)	(4,899)
Profit before income tax	282	1,436

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 42. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

- Virtus Health Limited
- IVF Finance Pty Limited
- IVFA Sub-Holdings Pty Ltd
- IVF Australia Pty Ltd
- Melbourne IVF Holdings Pty Ltd
- Queensland Fertility Group Pty. Ltd.

By entering into the deed on 25 June 2013, 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 ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Virtus Health Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of comprehensive income and statement of financial position of the 'Closed Group'.

	2013 \$'000	2012 \$'000
Statement of comprehensive income		
Revenue	93,949	-
Share of profits of associates accounted for using the equity method	282	-
Trust distributions received	21,498	-
Other income	5,528	-
Fertility specialists, consumables and associated costs	(31,002)	-
Employee benefits expense	(28,587)	-
Depreciation and amortisation expense	(4,686)	-
Occupancy expense	(4,628)	-
Advertising and marketing	(1,936)	-
Practice equipment expenses	(635)	-
Professional and consulting fees	(1,472)	-
Initial Public Offering transaction costs	(10,651)	-
Other expenses	(4,626)	-
Finance costs	(20,635)	-
Profit before income tax expense	12,399	-
Income tax expense	(3,682)	-
Profit after income tax expense	8,717	-
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	8,717	-

	2013 \$'000	2012 \$'000
Equity - accumulated losses		
Retained profits at the beginning of the financial year	54,671	-
Profit after income tax expense	8,717	-
Dividends paid	(74,599)	-
Accumulated losses at the end of the financial year	(11,211)	-
Statement of financial position		
Current assets		
Cash and cash equivalents	6,877	-
Trade and other receivables	36,441	-
Income tax refund due	1,084	-
Other	420	-
	44,822	-
Non-current assets		
Investments accounted for using the equity method	1,514	-
Other financial assets	126,639	-
Property, plant and equipment	13,521	-
Intangibles	198,973	-
Deferred tax	6,723	-
Other	235	-
	347,605	-
Total assets	392,427	-
Current liabilities		
Trade and other payables	12,011	-
Provisions	1,188	-
Other	2,268	-
	15,467	-
Non-current liabilities		
Borrowings	143,879	-
Provisions	2,125	-
	146,004	-
Total liabilities	161,471	-
Net assets	230,956	-
Equity		
Issued capital	231,981	-
Reserves	10,186	-
Accumulated losses	(11,211)	-
Total equity	230,956	-

Comparatives are not disclosed as the consolidated entity only entered into the deed during the current financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 43. Events after the reporting period

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 44. Reconciliation of profit after income tax to net cash from operating activities

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Profit after income tax expense for the year	10,104	19,660
Adjustments for:		
Depreciation and amortisation	8,745	8,972
Net loss on disposal of non-current assets	326	104
Net fair value loss on other financial assets	-	968
Share of profit - associates	(282)	(1,436)
Share-based payments	6,927	516
Amortisation of bank facility fees	5,061	850
Interest on finance lease facility	80	133
Net gain on acquisition of associate	5,670	-
Interest income	(452)	(433)
Doubtful debts expense	(477)	(455)
Other non-cash items	(27)	(34)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,394	(867)
Decrease/(increase) in inventories	(291)	120
Increase in deferred tax assets	(3,548)	(1,885)
Increase in trade and other payables	1,339	2,841
Decrease in provision for income tax	(6,404)	(1,602)
Increase in other provisions	455	1,079
Increase/(decrease) in other operating liabilities	(816)	580
Net cash from operating activities	27,804	29,111

Note 45. Non-cash investing and financing activities

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Shares issued in relation to business combinations	-	1,506

During the prior year the company issued \$1,506,000 of new equity as part of the consideration payment for Queensland Fertility Group Gold Coast Pty Limited.

Note 46. Earnings per share

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Profit after income tax attributable to the owners of Virtus Health Limited	10,104	19,660
Add: interest savings on conversion of options	529	253
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	10,633	19,913
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	56,829,522	53,532,170
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	6,529,017	4,662,539
Weighted average number of ordinary shares used in calculating diluted earnings per share	63,358,539	58,194,709
	Cents	Cents
Basic earnings per share	17.78	36.73
Diluted earnings per share	16.78	34.22

Note 47. Share-based payments

Virtus Health Limited Executive Option Plan and Specialist Option Plan ('Virtus Health Limited Share Option Plan')

The Virtus Health Limited Share Option Plan was adopted by the Board on 11 June 2013. The Virtus Health Limited Share Option Plan was established to reward, retain and motivate fertility specialists and senior executives. Participation in the Virtus Health Limited Share Option Plan is at the Board's discretion and no individual has a contracted right to participate in the Virtus Health Limited Share Option Plan or to receive any guaranteed benefits. Further details are provided in the remuneration report.

The Virtus Health Share Option Plan, IVF Australia Restructuring Share Option Plan and Melbourne IVF Restructuring Share Option Plan were all terminated on 11 June 2013. Details of these terminated plans are set out below.

Virtus Health Share Option Plan

The Virtus Health Share Option plan was adopted by the Board on 12 November 2008. The plan was established to reward, retain and motivate doctors and senior employees through recognition of their abilities, performance and contributions. This plan has now closed for further option grants. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Key features of the plan were as follows:

- Options are vested in equal instalments over a 2 to 4 year period, subject to performance conditions.
- Once issued, options remain exercisable for a period of 10 years. Options are granted under the plan at an exercise price equal to market value at the time of grant. Options granted under the plan carry no dividend or voting rights. No option holder has any right under the options to participate in any other share issue of the company or any other entity.
- When exercisable, each option is convertible into one ordinary share.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 47. Share-based payments (continued)

IVF Australia Restructuring Plan

The IVF Australia Restructuring Share Option plan was adopted by the Board on 10 April 2008. The plan was established to reward, retain and motivate doctors and senior employees through recognition of their abilities, efforts and contributions. The plan is now closed for further option grants. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Key features of the plan were as follows:

- Options are vested in equal instalments over a 2 to 4 year period, subject to performance conditions.
- Once issued, options remain exercisable for a period of 10 years. Options are granted under the plan at a various exercise prices as set out below. Options granted under the plan carry no dividend or voting rights. No option holder has any right under the options to participate in any other share issue of the company or any other entity.
- When exercisable, each option is convertible into one ordinary share.

Melbourne IVF Restructuring Share Option Plan

The Melbourne IVF Restructuring Share Option plan was adopted by the Board on 13 November 2008. The plan was established to reward, retain and motivate doctors and senior employees of Melbourne IVF Pty Limited through recognition of their abilities, efforts and contributions. The plan is now closed for further option grants. Under the plan, participants are granted options under time based and performance based vesting conditions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Key features of the plan were as follows:

- Options are vested in equal instalments over a 3 year period, subject to performance conditions.
- Once issued, options remain exercisable for a period of 10 years. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. No option holder has any right under the options to participate in any other share issue of the company or any other entity.
- When exercisable, each option is convertible into one ordinary share.

Set out below are summaries of options granted under the various historical plans and current plan:

2013			Balance at		Exercised/	Expired/	Balance at
Grant date	Expiry date	Exercise price	the start	Granted	cancelled	forfeited/other	the end
			of the year				of the year
12/11/08	12/11/18*	\$4.12	312,527	-	(312,527)	-	-
25/02/09	25/02/19*	\$4.12	44,000	-	(44,000)	-	-
01/07/09	01/07/19*	\$3.11	450,000	-	(450,000)	-	-
01/10/09	01/10/19*	\$3.11	241,491	-	(241,491)	-	-
01/07/10	01/07/20*	\$4.71	327,389	-	(327,389)	-	-
01/09/10	01/09/20*	\$4.71	106,157	-	(106,157)	-	-
01/07/11	01/07/21*	\$5.17	258,027	-	(200,000)	(58,027)	-
17/08/12	17/08/22*	\$4.71	-	1,650,000	(1,650,000)	-	-
24/08/12	24/08/22*	\$5.17	-	450,000	(450,000)	-	-
07/10/12	07/10/22*	\$5.17	-	174,082	(174,082)	-	-
11/06/13	11/06/18	\$5.68	-	412,500	-	-	412,500
10/04/08	16/02/15**	\$1.64	60,976	-	(60,976)	-	-
10/04/08	01/01/16**	\$3.15	183,496	-	(183,496)	-	-
10/04/08	14/02/17**	\$3.15	216,075	-	(216,075)	-	-
10/04/08	01/01/18**	\$3.26	228,100	-	(228,100)	-	-
10/04/08	10/04/18**	\$2.98	9,000	-	(9,000)	-	-
10/04/08	10/04/18**	\$2.53	1,550,000	-	(1,550,000)	-	-
10/04/08	10/04/18**	\$0.01	403,536	-	(403,536)	-	-
20/11/08	20/11/18***	\$0.00	272,470	-	(272,470)	-	-
			4,663,244	2,686,582	(6,879,299)	(58,027)	412,500

Weighted average exercise price \$5.68

* Virtus Health Share Option Plan.

** IVF Australia Restructuring Plan.

*** Melbourne IVF Restructuring Share Option Plan.

The options issued on 11 June 2013 of 412,500 relate to the Virtus Health Limited Share Option Plan which is the only plan in place at 30 June 2013.

The consolidated entity has agreed to issue 450,000 options to fertility specialists and 174,082 options to management as part of the IPO listing. Rights to these options were confirmed on 11 June 2013, although the options cannot be formally granted until September 2013. For compliance with AASB 2 'Share-based Payment' it is assumed that 11 June 2013 is the grant date for these options and the share-based payment cost of \$892,437 for these options has been included in the statement of comprehensive income for the year ended 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 47. Share-based payments (continued)

2012			Balance at the start of the year	Granted	Exercised/cancelled	Expired/forfeited/other	Balance at the end of the year
Grant date	Expiry date	Exercise price					
12/11/08	12/11/18*	\$4.12	312,527	-	-	-	312,527
25/02/09	25/02/19*	\$4.12	44,000	-	-	-	44,000
01/07/09	01/07/19*	\$3.11	450,000	-	-	-	450,000
01/10/09	01/10/19*	\$3.11	241,491	-	-	-	241,491
01/07/10	01/07/20*	\$4.71	327,389	-	-	-	327,389
01/09/10	01/09/20*	\$4.71	106,157	-	-	-	106,157
01/07/11	01/07/21*	\$5.17	-	258,027	-	-	258,027
10/04/08	16/02/15**	\$1.64	60,976	-	-	-	60,976
10/04/08	01/01/16**	\$3.15	183,496	-	-	-	183,496
10/04/08	14/02/17**	\$3.15	216,075	-	-	-	216,075
10/04/08	01/01/18**	\$3.26	228,100	-	-	-	228,100
10/04/08	10/04/18**	\$2.98	9,000	-	-	-	9,000
10/04/08	10/04/18**	\$2.53	1,550,000	-	-	-	1,550,000
10/04/08	10/04/18**	\$0.01	403,536	-	-	-	403,536
20/11/08	20/11/18***	\$0.00	272,470	-	-	-	272,470
			4,405,217	258,027	-	-	4,663,244

Weighted average exercise price \$2.80

* Virtus Health Share Option Plan.

** IVF Australia Restructuring Plan.

*** Melbourne IVF Restructuring Share Option Plan.

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2013 Number	2012 Number
12/11/08	12/11/18	-	208,351
25/02/09	25/02/19	-	27,333
01/07/09	01/07/19	-	152,667
01/10/09	01/10/19	-	160,993
10/04/08	16/02/15	-	60,976
10/04/08	01/01/16	-	183,496
10/04/08	14/02/17	-	216,075
10/04/08	01/01/18	-	228,100
10/04/08	10/04/18	-	6,660
20/11/08	20/11/18	-	272,470
Total exercisable		-	1,517,121

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.95 years (2012: 6.25 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry/cancellation date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
17/08/12	11/06/13	\$4.71	\$4.71	32.40%	6.30%	3.40%	\$1.38
24/08/12	11/06/13	\$5.17	\$5.17	32.40%	6.30%	3.20%	\$0.79
07/10/12	11/06/13	\$5.17	\$5.17	32.40%	6.30%	3.00%	\$0.80
11/06/13	11/06/18	\$5.68	\$5.68	30.50%	4.60%	3.40%	\$1.26

Share price at grant date: The share price at grant date was an internal valuation estimate as there was no public market for the shares at these grant dates.

Expected volatility: Volatility has been determined from a comparison of peer group companies, as there was no public market for the above shares at grant date.

Fair value at grant date: No market conditions have been factored into the measurement of fair value.

DIRECTORS' DECLARATION

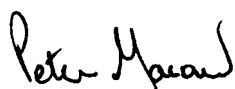
In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 42 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Peter Macourt
Chairman

30 September 2013
Sydney

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the members of Virtus Health Limited

Report on the financial report

We have audited the accompanying financial report of Virtus Health Limited (the company), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Virtus Health Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

INDEPENDENT AUDITOR'S REPORT



Auditor's opinion

In our opinion:

- (a) the financial report of Virtus Health Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 37 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Virtus Health Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers
PricewaterhouseCoopers

Eddie Wilkie
Eddie Wilkie
Partner

Sydney
30 September 2013

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 23 August 2013.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	630	-
1,001 to 5,000	1,015	-
5,001 to 10,000	264	-
10,001 to 100,000	252	-
100,001 and over	76	2
	2,237	2
Holding less than a marketable parcel	35	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	Number held	% of total shares issued
Ellerston Capital	8,169,951	10.27
JCP Investment Partners	5,945,860	7.48
Platypus Asset Mgt	3,354,181	4.22
Celeste Funds Mgt	3,054,316	3.84
Antares Equities	1,972,235	2.48
Invesco Australia	1,907,820	2.40
Bennelong Australian Equity Partners	1,882,469	2.37
Perpetual Investments	1,851,916	2.33
Arnhem Investment Mgt	1,577,381	1.98
Pictet Asset Mgt	1,540,600	1.94
Paradice Investment Mgt	1,325,382	1.67
Goldman Sachs Asset Mgt	995,000	1.25
Russell Investments	962,282	1.21
Private Clients of UBS Wealth Mgt Australia	929,315	1.17
K2 Asset Mgt	927,000	1.17
McBain Family Trust	917,720	1.15
F&S Quinn Trust	880,282	1.11
Schroder Investment Mgt	877,522	1.10
FIL Investment Mgt Australia	874,848	1.10
Mr Lyndon G Hale	823,694	1.04
	40,769,774	51.28

Unquoted equity securities

412,500 unlisted share options have been granted to 2 persons. Share options do not carry any voting rights.

SHAREHOLDER INFORMATION (continued)

Substantial holders

Substantial holders in the company are set out below:

	ORDINARY SHARES	
	Number held	% of total shares issued
Ellerston Capital	8,169,951	10.27
JCP Investment Partners	5,945,860	7.48

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

CORPORATE DIRECTORY

Directors

Peter Macourt – Chairman
Marcus Darville
Susan Channon
Dennis O’Neill
Lyndon Hale
Peter Turner

Company secretary

Glenn Powers

Notice of annual general meeting

The annual general meeting of Virtus Health Limited will be held at:

Level 1, Rooms 5 & 6
Hilton Sydney
488 George St
SYDNEY NSW 2000

Time: 2.00pm

Date: Wednesday, 6 November 2013

Registered office

Level 3
176 Pacific Highway
Greenwich NSW 2065

Phone: (02) 9425 1722

Fax: (02) 9425 1633

Principal place of business

Level 3
176 Pacific Highway
Greenwich NSW 2065

Share register

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

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

Bankers

Australia and New Zealand Banking Group Limited
Level 15
20 Martin Place
Sydney NSW 2000

Westpac Banking Corporation
Level 3
275 Kent Street
Sydney NSW 2000

Commonwealth Bank of Australia
Ground Floor, Tower 1
201 Sussex Street
Sydney NSW 2000

Siemens Financial Services Inc
170 Wood Avenue,
South Iselin
New Jersey 08830

National Australia Bank
Level 19, NAB House
255 George Street
Sydney NSW 2000

Stock exchange listing

Virtus Health Limited shares are listed on the Australian Securities Exchange (ASX code: VRT)

Website:

www.virtushealth.com.au

