
ANNUAL REPORT 2014



91

FERTILITY SPECIALISTS

172

SCIENTISTS

755

NURSES, COUNSELLORS
AND PATIENT SUPPORT

34

CLINICS

6

DAY HOSPITALS

17

EMBRYOLOGY LABORATORIES

20

ANDROLOGY LABORATORIES

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Sofitel Sydney Wentworth Hotel,
61-101 Phillip St. Sydney in the Adelaide room at 2.00pm, Wednesday, 29 October 2014.

LEADING MINDS LEADING SCIENCE

Virtus Health is one of the most successful medical collaborations of its kind in the world. We combine the strength of clinical collaboration with advanced scientific techniques to deliver the best possible outcomes for our patients.

For over 30 years, our clinicians, scientists, nurses, counsellors and support staff have helped shape the face of Assisted Reproductive Services (ARS). Our patients benefit from the wisdom and insights of our fertility specialists, our ability to rapidly implement advances in clinical practice, and our strength to deliver this care across a broad network of clinics and day hospitals. Our research, innovation and expertise in fertility treatment extends to advanced genetic testing, andrology, embryology, cryopreservation and fertility preservation.

CHAIRMAN'S STATEMENT	2	NOTES TO THE FINANCIAL STATEMENTS	46
CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW	4	DIRECTORS' DECLARATION	97
SIMS CLINIC IRELAND	12	INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRTUS HEALTH LIMITED	98
CORPORATE GOVERNANCE STATEMENT	13	SHAREHOLDER INFORMATION	100
DIRECTORS' REPORT	23	CORPORATE DIRECTORY	102
FINANCIAL REPORT	41		

CHAIRMAN'S STATEMENT

I AM PLEASED TO PRESENT THE ANNUAL REPORT OF VIRTUS HEALTH FOR THE FINANCIAL YEAR ENDING 30 JUNE 2014.



We commenced our international expansion strategy with two key developments.

PETER MACOURT, CHAIR

Our reported results for the financial year ending 30 June 2014 have exceeded our pro-forma earnings forecasts provided in the Virtus Health IPO prospectus published in May 2013. This result was achieved in the context of mixed conditions in our main Australian markets which resulted in a lower level of full service cycle volume than originally anticipated, offset by an increase in The Fertility Centre low cost service. As in the previous year we have disclosed the pro-forma consolidated results for the current and prior year and these are provided on page 8 in the operating and financial review.

With the ASX listing behind us, senior management led by our Group Chief Executive Officer, Sue Channon, has focused on extending the capability of Virtus to deliver the highest quality Assisted Reproductive Services ("ARS") in Australia. Additionally, we have focused on further development of our day hospital services and expansion into international markets; each of these activities is consistent with the strategy we set out in our IPO prospectus.

A new ARS facility opened in Burwood, New South Wales and we expanded the capability of our Werribee facility in Victoria to include laboratory services allowing patients access to more convenient fertility treatment services in Geelong and the West Melbourne suburbs. We also expanded the capacity of TFC Springwood in Queensland to meet increased patient demand.

The utilization of all our day surgeries was increased by providing access to our facilities for specialists outside our ARS activities; particular success has been achieved in our Mackay Specialist Day Hospital facility in Queensland and City West Specialist Day Hospital facility in New South Wales and the teams in these facilities are to be congratulated for their efforts.

We have continued to develop the capability of our specialised diagnostic services which complement our ARS capability. New tests have been added to our diagnostic platforms and there has been significant interest in the non-invasive prenatal testing service, a test for Down Syndrome, which is available both to our own specialists and third party obstetricians and gynaecologists.

The increasing application of genetic testing within the specialty of reproductive medicine has led to the formation of our own Genetics Working Party which brings together Virtus Health fertility specialists, scientists and two external specialists who are supporting the development of the Virtus strategy in this field. We recognize the importance of these specialised diagnostic activities in their contribution to improvement of ARS success rates and the treatment of complex patient infertility conditions; \$1m has been invested in these advanced diagnostic technologies in the last six months.

We commenced our international expansion strategy with two key developments. In May, we acquired 70% of *Sims Clinic Limited* ("Sims"), based in Dublin, Ireland. We were attracted to the considerable expertise within Sims and their market leading position in the provision of ARS to the Irish patient community. After only three months as part of Virtus Health we are delighted by the manner in which Sims has embraced their role in the group and with a management and clinical team, led by founding shareholders Dr. Anthony Walsh and Dr. David Walsh, the integration of Sims into the Virtus family is progressing well.

In June we announced that we will open a clinic in Singapore. We have recruited three highly regarded fertility specialists and a senior embryology scientist who has worked in the Singapore ARS sector for a number of years to lead the *Virtus Fertility Centre Singapore*. The clinic fit-out will be completed in December 2014 and we plan to commence full service in January 2015. There will be extensive collaboration with members of our scientific and nursing teams in Australia to deliver world leading ARS for Singaporean patients.

On corporate governance matters the Board reviewed the operation of the Audit and Risk Committee and created a separate Risk Committee to oversee the very specialised nature of risk associated with the provision of health services. This decision was taken in December and brought Virtus Health practice into line with other major Australian healthcare providers.

Finally I would like to thank all of our staff, fertility specialists and management teams who have contributed to the success of Virtus Health to date. In the first twelve months as a listed company new demands and commitments are placed on management and specialists particularly in certain aspects of corporate governance and investor relations. The Virtus team has responded well to these new challenges and has continued to maintain its commitment to achieving delivery of the highest standards of clinical practice and patient care.



PETER MACOURT
Chair

CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW

30 JUNE 2014



*I am pleased to present the
Operating and Financial Review
for the financial year ending
30 June 2014.*

SUE CHANNON, GROUP CEO

OPERATIONS – OVERVIEW

Virtus is an Australian healthcare services company which has been a leader in the provision of Assisted Reproductive Services (“ARS”) for more than 30 years and whose clinicians, scientists and support staff have significantly influenced the development of the profession and its services from both an academic and clinical perspective. It is from this leadership position and our research and innovation across all aspects of our business that we ensure our patients have access to some of the most highly qualified fertility specialists and scientists in Australia and leading scientific and clinical outcomes.

Whilst our main activity is providing patients with Assisted Reproductive Services (“ARS”), our vertically integrated model, which includes specialised diagnostics and day hospital services, ensures our patients receive continuous and high quality care. Our medical teams are highly regarded internationally for their clinical and scientific breakthroughs and expertise, and our fertility treatment programs, including fertility preservation, advanced genetic testing, embryology, cryopreservation and andrology are considered some of the safest and most successful in the world. Our fertility specialists are supported by a team of medical, administrative and professional health care managers, allowing them to put all their focus on the care of their patients.

Virtus Health is one of the largest integrated practices and one of the most successful medical collaborations of its kind in the world. With 91 of the world’s leading fertility specialists supported by 927 professional staff, we are the largest network and provider of fertility services in Australia and this year established an international presence in Ireland. In late 2014, our expertise in fertility treatment and care will be extended to patients in Singapore with the establishment of the first Virtus branded purpose built fertility centre.



Our combined expertise creates a unique and powerful body of knowledge and expertise 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. Our expert teams of clinicians and scientists meet regularly to compare and review results and outcomes to ensure that we remain leaders in our field and meet or exceed global best practice standards.

Our clinicians are formally recognised by relevant national Colleges for the training of future fertility specialists and surgeons. In Ireland, the Royal College of Surgeons recognises Sims IVF as a teaching hospital and has to date educated over 700 students, 50% of whom are from the Middle East. In Australia, the Royal Australian and New Zealand College of Obstetricians and Gynaecologists (RANZCOG) utilises Virtus clinics for sub-specialist fertility training, and we are committed through these training programs to making a significant contribution to the profession both now and in the years to come.

We continue to maintain best practice care and success by facilitating our doctors, scientists, nurses and researchers involvement in international educational forums to search for ideas for continual improvement in our fertility programs as well as sharing our world-class research on the global stage.

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. We are delighted that the Virtus family has expanded to include new employees in Ireland and Singapore.

The dedication, skill and commitment of our 91 fertility specialists, 927 individuals and a diverse range of specialist providers in our day hospitals makes Virtus Health the success it is today. It is this group of individuals who are all responsible for our exceptional patient care which is evident in our leading market position in the territories in which we operate. As an organisation we aspire to support all of our staff in the ongoing delivery of operational excellence and exceptional patient care.

Virtus is committed to ensuring the safety and well-being of all its employees and fertility specialists and has in place a program committed to workplace safety. This is currently being extended to ensure continued improvement in workers' health and safety particularly in the area of analysis of hazards, near misses and reporting. Virtus also provides an employee assistance program to support the well-being of its staff.

CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW (continued)

OUR 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 an embryo 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 which include advanced genetic testing are also used by a small number of other fertility clinics and general practitioners 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.

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

OPERATIONS – FY14

Virtus continued to expand its geographic footprint and enhance its existing facilities; total capital expenditure was \$8,007,000.

New ARS facilities were opened in Burwood in New South Wales and Werribee in Victoria and we contracted with five new Fertility Specialists in our existing geographic locations.

The recently opened low cost model of care "The Fertility Centre" ('TFC') clinics which operate in conjunction with our full service clinics, enjoyed strong growth confirming our vision that high quality technology leading ARS services should be accessible to Australians where affordability may be an issue. These services are provided under a strict protocolised approach to patient care. All four TFC clinics, Dandenong and Sunshine in Victoria, Liverpool in New South Wales and Springwood in Queensland continued to see increased patient demand with cycle growth exceeding our expectations.

Virtus continued to develop the capability of its diagnostic services which complement the ARS capability. We enjoyed strong growth in cytogenetic, natural killer cell and PGD (pre-implantation genetic diagnosis of embryos) testing. We also achieved strong growth in the application of the externally provided Non-Invasive Prenatal Test ("NIPT") and we continue to work closely with the test provider to extend this service. Virtus has also investigated opportunities to provide additional services in the area of advanced genetic testing and we have invested in additional technologies in the 4th quarter of FY14 to support these developments.

Virtus day hospital activities achieved strong revenue growth in non-IVF procedure activity and this resulted in an increase in utilisation rates in each of our six day hospitals. Non-IVF activity now accounts for 47% of day procedure activity compared to 41% for the previous financial year and we have recently secured additional public hospital work in two of our day hospitals. Utilisation enhancements will continue through FY15.

WE ARE DELIGHTED THAT THE VIRTUS FAMILY HAS EXPANDED DELIVERING OUR LEADING SERVICE AND CARE TO IRELAND AND SINGAPORE.



Virtus continued to expand its geographic footprint and enhance its existing facilities; total capital expenditure was \$8,007,000.

Virtus also established an international presence following the acquisition in May of seventy per cent of the shares of Sims Clinic Limited, the market leader in Ireland. Sims Clinic has a very similar integrated model of patient care to Virtus and although we are in the early stages of integration, we have been impressed by the commitment of the Sims team to the partnership with Virtus.

Development of the new clinic in Singapore is on track with the tender process closing in August; commissioning is expected to be completed in late 2014.

CHIEF EXECUTIVE'S OPERATING AND FINANCIAL REVIEW (continued)

REVENUE

Virtus achieved revenue growth of 7.9% in FY14 and IVF cycle growth of 3.9% in New South Wales, Queensland and Victoria compared to the equivalent Assisted Reproductive Services ('ARS') market volume growth of 2.9%. Virtus has achieved strong growth in its low cost "The Fertility Centre" branded clinics and in specialised diagnostics, particularly in its cytogenetic and pre-implantation genetic diagnosis testing activities. Diagnostic revenue growth has been 17.5% and growth in non-IVF revenue in our day hospitals was 9.4%.

RESULTS – STATUTORY

Key highlights from the results are:

- Revenue from ordinary activities increased by 7.9% to \$201,249,000.
- EBITDA increased by 36.8% to \$59,404,000.
- Profit before income tax expense increased to \$43,842,000 from \$14,355,000.
- Segment EBITDA increased by 8.6% to \$61,140,000.

Cycle growth achieved was below the level assumed in the IPO Prospectus due to the lower level of market activity in H2; this resulted in pro-forma EBITDA underperformance of \$2.6 million compared to the Prospectus forecast. However, pro-forma net profit after tax exceeded the Prospectus assumption by \$0.6 million.

RESULTS – PRO-FORMA

On a pro-forma basis, EBITDA increased by 7.7% to \$60,376,000. Statements of pro-forma adjustments to the statutory income statement and a pro-forma consolidated income statement are set out below.

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 below provide an overview of performance against the prospectus forecast for FY14 and also a comparison to the FY13 pro-forma result.

PRO-FORMA ADJUSTMENTS TO THE STATUTORY INCOME STATEMENT

The table below sets out the adjustment to the Statutory Results for 2013 and 2014 to primarily reflect the acquisitions that Virtus Health Limited has made since 1 July 2012 as if they had occurred as at 1 July 2012 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 2012. In addition, certain other adjustments to eliminate non-recurring items have been made. These adjustments are summarised below:

PRO-FORMA ADJUSTMENTS TO THE CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013 AND 30 JUNE 2014

	Consolidated	
	30 June 2014 \$m	30 June 2013 \$m
Statutory revenue	201.7	192.9
Interest received	(0.3)	(0.5)
Net gain on acquisition of City East Specialist Day Hospital	-	(5.7)
Pro-forma impact of acquisitions (Note 1)	(1.5)	0.6
Pro-forma revenue	199.9	187.3
Statutory NPAT	31.0	10.1
Pro-forma impact of historical acquisitions and other one-off costs (Note 1)	1.0	1.1
Net gain on acquisition of City East Specialist Day Hospital	-	(5.7)
Share-based payments expense	-	6.8
Public company costs	-	(1.2)
IPO transaction costs	-	10.7
Debt structure costs	-	11.6
Amortisation	-	0.8
Income tax effect	-	(6.9)
Pro-forma NPAT	32.0	27.3

Note 1:

The pro-forma adjustments for FY2014 largely relate to one month's trading for Sims Clinic in Ireland and the transaction costs relating to this acquisition which were not included in the Prospectus forecasts for 2014.



PRO-FORMA CONSOLIDATED INCOME STATEMENTS FINANCIAL YEAR ENDED 30 JUNE 2014 COMPARED TO FINANCIAL YEAR ENDED 30 JUNE 2013

The pro-forma consolidated income statement for the financial year ending 30 June 2014 has been prepared on the same basis as the pro-forma consolidated financial income statement for the twelve months ending 30 June 2013 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 2014 compared to the pro-forma consolidated income statement for the financial year ended 30 June 2013.

	Consolidated		Change %	Prospectus forecast
	30 June 2014 \$m	30 June 2013* \$m		30 June 2014* \$m
Total revenue	199.9	187.3	6.7	206.3
Labour costs	(60.3)	(56.7)	(6.3)	(62.5)
Provider fees	(30.2)	(29.4)	(2.7)	(31.9)
Facility and occupation costs	(12.6)	(11.8)	(6.8)	(13.3)
Consumables and supplies	(23.3)	(19.8)	(17.7)	(23.0)
Other operating costs	(13.1)	(13.5)	3.0	(12.6)
Total expenses	(139.5)	(131.2)	(6.3)	(143.3)
EBITDA	60.4	56.1	7.7	63.0
Depreciation and amortisation	(8.2)	(8.5)	3.5	(9.3)
EBIT	52.2	47.6	9.7	53.7
Net interest expense	(7.4)	(9.2)	19.6	(9.2)
Profit before tax	44.8	38.4	16.7	44.5
Income tax expense	(12.8)	(11.1)	(15.3)	(13.1)
NPAT	32.0	27.3	17.2	31.4
NPATA	32.7	28.0	16.8	32.1
<i>EBITDA Margin</i>	30.2%	30.0%	0.2%	30.5%
<i>EBIT Margin</i>	26.1%	25.4%	0.7%	26.0%
Summary key performance indicators				
Number of IVF Cycles – Virtus	14,896	14,342	3.9	15,409
Average Total Revenue Per IVF Cycle	\$13,417	\$13,060	2.7	\$13,389

* 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

There have been no changes to the existing bank facilities. The \$150,000,000 facility which matures in June 2016 comprises:

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

At 30 June 2014, total facilities drawn were \$140 million in cash and \$3.4 million in guarantees. Cash balances at the end of June 2014 were \$21.5 million.

Covenants are tested twice a year and the covenant tests are as follows:

- Net leverage ratio to be not greater than 3.25:1; and
- Interest cover ratio to be equal to or greater than 3:1.

The consolidated entity comfortably met these covenants.

Amortisation of Borrowing Costs

Amortisation of borrowing cost expense for the financial year ending 30 June 2014 was \$463,000 and the expected charge in financial year ending 30 June 2015 will be similar unless there are changes to group banking facilities.

Taxation

The effective tax rate on operating earnings for FY14 was 29.4%. The tax rate was higher than expected due to the non-deductibility of certain transaction related expenses and the first year loss in Singapore for which no benefit was recognised.

Dividend

In accordance with the policy set out in the IPO prospectus published in May 2013, a final dividend of 14.0 cents per share fully franked will be paid on 16 October 2014 to shareholders on the register at 2 October 2014.

BUSINESS DEVELOPMENT STRATEGY

We have made good progress through FY14 in implementing our strategy as outlined in the prospectus.

ARS MARKET

Based on the long term trend of women in Australia and Ireland delaying the birth of children and the fertility rate among Australian women aged over 30 continuing to increase as a consequence of a range of social and demographic factors as well as the extension of our scientific and clinical services allowing us to treat a broader range of fertility issues we expect that demand for assisted reproductive services and the associated diagnostic testing and day hospital procedures will continue to increase.



Recruitment and succession planning for fertility specialists will continue. We will continue to selectively invest in our network of fertility clinics and also the clinical and scientific services offered to patients to enable us to meet the increased demand from the Australian market, particularly in New South Wales, Queensland and Victoria.

DAY HOSPITALS

As well as growth in ARS driving day hospital volumes we expect demand for our day hospital services to continue due to the aging population and improvements in technology allowing more complex procedures to be undertaken in a day hospital environment. Virtus is focused on improved utilisation and we are pursuing several opportunities to attract non-IVF specialists to work in our facilities as well as further opportunities to partner with the public sector for the provision of day hospital services.

LOW COST IVF

Opportunities to grow the existing network are continuing to be explored and we expect to have at least one new centre by June 2015.

SPECIALISED DIAGNOSTICS

Virtus will continue to seek opportunities to expand the range of diagnostic testing activities to support the ARS business. We have established our own Genetics Working Party to provide strategic support to this activity.

ACQUISITIONS

Virtus will continue to evaluate acquisition opportunities both locally and abroad.

RESEARCH AND DEVELOPMENT

Research and development is integral to the clinical activity of Virtus and supports improved outcomes for our patients. Our international reputation as opinion leaders in reproductive medicine is based on, and evidenced by, our contributions as lecturers at major national and international conferences and our publications in key scientific journals and textbooks. Virtus staff in multiple disciplines are internationally recognised as experts and innovators in rapidly developing areas as diverse as fertility preservation, advanced genetic testing, embryology, cryopreservation and andrology. In a rapidly evolving field, research and development constitutes a vital part of our business development strategy.

SIMS CLINIC IRELAND

On 30 May Virtus Health entered into a partnership with Ireland's leading IVF provider, Sims Clinic ("SIMS") – acquiring a 70% share in SIMS.

Sims was founded in 1997 by two of Ireland's leading IVF specialists, Dr Anthony Walsh and Dr David Walsh, and has built a strong reputation for excellence, providing fertility treatment to around 25-30% of the local community that need help to conceive. The team at Sims undertook approximately 1,200 fresh IVF cycles in the year ending 30 June 2014. They provide fertility care in a purpose built clinic in Dublin and have a team of 60, including 7 fertility specialists,

The Sims team are pioneers of IVF in Ireland having been responsible for the country's first IVF baby, first donor sperm IVF program, first donor egg program and first clinic to provide Intracytoplasmic Morphologically selected Sperm Injection ("IMSI"), and they continue with this leading clinical practice and research today.

This partnership is the result of our strong relationships within the fertility field and the international reputation of our medical and scientific team. It also marks the first major step in our strategy of disciplined expansion into growing international markets.

We expect the partnership will have a number of positive flow-on effects, including:

- Collaborations on leading edge research and science;
- Sharing best practice treatment options for patients;
- Attracting the best fertility specialists; and
- Providing international opportunities for career advancement for staff.

Sims will continue to operate under their own brands, with Dr Anthony Walsh continuing as Managing Director and Dr David Walsh as Medical Director.



CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement explains how the Board oversees 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 the 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 (**ASX Recommendations**) and Virtus' compliance with these guidelines. This Corporate Governance Statement outlines Virtus' governance framework, policies and procedures that were in place for the full financial year ended 30 June 2014 (unless otherwise stated). Where there is non-compliance further explanation is provided in this statement:

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

CORPORATE GOVERNANCE STATEMENT (continued)

Recommendation	Compliance (Yes/No)
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
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.

1.1 BOARD OF DIRECTORS

The Board of Directors is comprised of the Chief Executive Officer ("CEO"), 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 fulfil 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 under a contract described in Section C 'Service agreements' of the Remuneration report, contained in the Directors' report, and is also entitled to participate in the option plans described in Section D of the same 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. Marcus has expressed his intention to retire from the Board and not seek re-election at the Annual General Meeting of the Company at which point the Board will consist of a majority of independent directors. 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,

CORPORATE GOVERNANCE STATEMENT (continued)

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 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;
- 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 are maintained by the Company Secretary and are reviewed by the Board 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 adopt charters setting out the authority, responsibility, membership and operation of the committee.

The Board has established the Audit Committee (previously Audit and Risk Committee) and the Nomination and Remuneration Committee. In December 2013, the Board established the Risk Committee.

Audit Committee

The role of the Audit 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 financial risk management and internal controls; and
- Virtus' systems and procedures for compliance with applicable legal regulatory requirements.

The Audit Committee is chaired by Dennis O'Neill, an independent non-executive director; Peter Macourt and Marcus Darville are also members of the Audit Committee. The external auditors, CEO and CFO are invited to Audit Committee meetings at the discretion of the Audit Committee. Peter Turner has been appointed to the Audit Committee with effect 1 July 2014.

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:

1. The Committee is responsible for developing, reviewing and making recommendations to the Board on:
 - a. the ongoing appropriateness and relevance of the remuneration framework for the chairperson and the non-executive directors;
 - b. 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);
 - c. 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;
 - d. Virtus' recruitment, retention and termination policies for the CEO and senior executives and any changes to those policies;
 - e. incentive schemes, if appropriate, for the CEO and senior executives; and
 - f. equity based plans, if appropriate, for the CEO, senior executives and other employees.

CORPORATE GOVERNANCE STATEMENT (continued)

2. The Committee is also responsible for monitoring and providing input to the Board regarding:
- a. legislative, regulatory or market developments likely to have a significant impact on Virtus and legislative compliance in employment issues;
 - b. the remuneration trends across Virtus, including
 - i. the trends in base pay for senior management relative to that of all Virtus employees; and
 - ii. remuneration by gender; and
 - c. 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.

Risk Committee

The role of the Risk Committee is to assist the Board carry out and meet its obligations around risk management, including oversight of:

- leading the Groups strategic direction in the management of material risks;
- designing, implementing and maintaining a system of risk management;
- leading the establishment and implementation of a risk management framework;
- reviewing the effectiveness of the risk management framework in identifying, managing and controlling internal processes;
- review of external non-financial risk management activities and reports and the organisations subsequent compliance;
- monitoring the effectiveness of Virtus' system for risk management and assessment; and
- monitoring Virtus' systems and procedures for compliance with applicable legal and regulatory requirements.

The Risk Committee comprises both Directors and executives of the Company. The current composition of the Committee is Mr Peter Turner (Chairman), Mr Peter Macourt and Ms Sue Channon. Mr Lyndon Hale in his capacity as a State Medical Director and Mr Andrew Othen as a State Managing Director are permanent invitees to the Risk Committee but they are not entitled to vote.

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

1.4 ADVISORY COMMITTEE

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

- providing a forum for sharing any fertility specialist and management concerns or issues with Virtus management;
- providing a forum for agreeing and communicating fertility specialist and management recommendations to the Board on certain matters, either as requested by the Board or at the request of the Advisory Committee;
- considering and providing input into Virtus' strategic, 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
- 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 Advisory Committee comprises 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 oversees the implementation of the diversity policy and periodically assesses 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 clients 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 2014, the proportion of female employees within the consolidated entity was 88%, the Board considers this level of gender diversity to be appropriate for the consolidated entity. 18% of senior leadership positions (the National Advisory Committee) are held by females and 17% of Virtus' directors are female. The Board has agreed that by October 2014 that at least 25% of Board members will be female and the Nomination and Remuneration Committee will assist the Board in achieving this objective.

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 its 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 that 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 is 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

CORPORATE GOVERNANCE STATEMENT (continued)

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 who have supplied their email details 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 and the Virtus 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 resolutions 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 seeks 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.

- **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.

CORPORATE GOVERNANCE STATEMENT (continued)

1.9 MANAGING BUSINESS RISK

The risk management aspects of the Audit Committee and the Risk Committee's combined 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. minimising risk to patients undergoing ARS and non-ARS procedures;
 - iii. protection of patients' genetic tissue;
 - iv. important judgments and accounting estimates;
 - v. business licence requirements;
 - vi. litigation and claims;
 - vii. fraud and theft; and
 - viii. 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 Committees 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 Risk Committee and the Virtus Board.

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 at the end of, or during, the year ended 30 June 2014.

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

Marcus Darville – Former Chairman

Susan Channon

Dennis O'Neill

Lyndon Hale

Peter Turner

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:

	Consolidated	
	2014 \$'000	2013 \$'000
Interim ordinary dividend for the year ended 30 June 2014 (2013: 30 June 2013) of 12.0 cents (2013: 51.5 cents) per fully paid share paid in April 2014	9,446	28,765
Interim ordinary dividend for the year ended 30 June 2013 of 82.0 cents per fully paid ordinary share paid in August 2013	–	45,834
	9,446	74,599

A final dividend of 14.0 cents per share, fully franked, will be paid on 16 October 2014 to the shareholders on the register at 2 October 2014.

REVIEW OF OPERATIONS

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$30,885,000 (30 June 2013: \$10,104,000).

A reconciliation of Segment EBITDA to profit before tax for the year is as follows:

	Consolidated	
	2014 \$'000	2013 \$'000
Segment EBITDA	61,140	56,282
Share-based payment expense	(456)	(6,927)
Initial Public Offering ('IPO') transaction costs	–	(10,651)
Net gain on acquisition of associate	–	5,670
Other non-trading expenses	(1,280)	(945)
EBITDA (reported)	59,404	43,429
Depreciation and amortisation expense	(8,192)	(8,745)
EBIT	51,212	34,684
Interest revenue	349	452
Interest expense	(7,256)	(15,856)
Revaluation of interest rate swap	–	136
Amortisation of bank facility fee	(463)	(5,061)
Profit before income tax from continuing activities	43,842	14,355

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 review of operations, please refer to the Chief Executive's Operating and Financial Review which precedes 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 Sims Clinic

On 30 May 2014, Virtus Health Limited, through its wholly owned subsidiary Virtus Health Ireland Limited, acquired 70% of the issued shares of Sims Clinic Limited and its subsidiaries for consideration of \$23,726,000. The acquisition was funded by a drawdown from the consolidated entity's existing bank facilities and existing cash.

DIRECTORS' REPORT (continued)

Business development in Singapore

On 24 June 2014, Virtus Health Limited announced that it has commenced development of its first international, Virtus branded fertility centre, in Singapore. Virtus has joined together with three leading Singaporean fertility specialists to establish the 'Virtus Fertility Centre, Singapore' at the Scotts Medical Centre in Singapore's CBD. The development will be funded from the consolidated entity's existing bank facilities and cash.

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 2014 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 fertility 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, particularly in New South Wales, Queensland and Victoria. Additionally we will consider further investment in our international network of fertility clinics.

BUSINESS RISKS

The consolidated entity is faced with certain material business risks that could have an effect on the financial prospects of the consolidated entity. These include:

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

Patients receive partial reimbursement for the consolidated entity's services through Commonwealth Government programs, including the Medicare Benefits Schedule and the Extended Medicare Safety Net.

If the level of reimbursement provided by these programs for the consolidated entity's services were to change, the consolidated entity's patients may face higher out-of-pocket expenses for Assisted Reproductive Services. This may cause the consolidated entity to experience reduced demand for its range of services, potentially leading to a reduction in the consolidated entity's revenue and profitability.

Availability of fertility specialists

The consolidated entity relies on maintaining its relationship with existing fertility specialists, as well as contracting with and growing In-Vitro Fertilisation ('IVF') cycles for new fertility specialists to assist in capturing market growth, increasing market share and replacing any retiring fertility specialists. If the consolidated entity cannot successfully maintain its relationship with existing fertility specialists or contract and grow IVF cycles for new fertility specialists this may cause the consolidated entity to experience reduced demand for its range of services, potentially leading to a reduction in the consolidated entity's revenue and profitability.

Variability of growth

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 Assisted Reproductive Services. 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, the consolidated entity's 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.

Increased competition

The consolidated entity faces increased competition from new IVF providers and this may cause the consolidated entity to experience reduced demand for its range of services, potentially leading to a reduction in the consolidated entity's revenue and profitability.

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

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 (last 3 years): None

Special responsibilities: Member of the Audit Committee, the Nomination and Remuneration Committee and the Risk Committee.

Interests in shares: 18,485 ordinary shares held directly

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 Estia Health, Icon Cancer Care, Super A-Mart/Barbeques Galore. Marcus has expressed his intention to retire from the Board and not seek re-election at the Annual General Meeting of the Company.

Other current directorships:

Director of Quadrant Limited (since 2006)

Former directorships (last 3 years): None

Special responsibilities: Member of the Audit Committee and the Nomination and Remuneration Committee.

Interests in shares: None

Interests in options: None

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 (last 3 years): None

Special responsibilities: Member of the Risk Committee

Interests in shares: 448,633 ordinary shares

Interests in options: 262,500 options over ordinary shares

Name: Dennis O'Neill

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 and stepped down as the Advisory Chairman in October 2014. He is also Advisory Chairman to several unlisted companies and was the Steel Supplier Advocate for the Commonwealth Government until 30 June 2014.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Chair of the Audit Committee

Interests in shares: 50,000 ordinary shares

Interests in options: None

DIRECTORS' REPORT (continued)

Name: Lyndon Hale

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 (last 3 years): None

Special responsibilities: None

Interests in shares: 823,694 ordinary shares

Interests in options: None

Name: Peter Turner

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:

Chairman, Ashley Services Group Ltd (from 31 July 2014)

Former directorships (last 3 years): None

Special responsibilities: Chair of the Risk Committee and the Nomination and Remuneration Committee and member of the Audit Committee from 1 July 2014.

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 2014, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit Committee		Risk Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Peter Macourt – Chairman	10	10	2	2	3	3	2	2
Marcus Darville	5	10	2	2	–	3	–	–
Susan Channon	10	10	–	–	–	–	2	2
Dennis O'Neill	10	10	–	–	3	3	–	–
Lyndon Hale	10	10	–	–	–	–	–	–
Peter Turner	10	10	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.

The Risk Committee was separated from the Audit Committee in December 2013.

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
- F. Additional disclosures relating to key management personnel ("KMP")

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. Aggregate

DIRECTORS' REPORT (continued)

annual directors' fees paid to directors in the financial year ending 30 June 2014 were \$350,410; details of the fees payable to each director are set out in the section B.

All directors' fees include superannuation at the superannuation guarantee rate for the respective amounts.

Executive remuneration

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 – 51%
- Glenn Powers – 51%
- Andrew Othen – 49%
- Steve Zappia – 25%
- Nadia Stankovic – no target was set as Ms Stankovic only became a KMP with effect from 1 June 2014.

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 benefits

The long-term benefits ('LTB') include long service leave accruals 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 shareholder 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. No further long-term equity linked performance incentives for executives were granted during the year ended 30 June 2014.

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 per share targets being met. The remaining portion of the bonus and incentive payments are at the discretion of the Nomination and Remuneration Committee.

Use of remuneration consultants

During the financial year ended 30 June 2014, the Nomination and Remuneration committee has not engaged remuneration consultants, to review its existing remuneration policies for key management personnel (executives and non-executives) and performance incentives for fertility specialists.

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 plans

The company has adopted an 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 Plans 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.

DIRECTORS' REPORT (continued)

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

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 established in one of the financial years ending after June 2008, up to June 2014.

In addition, consistent with the practice pre-Listing on the ASX, options will also be granted to new fertility specialists upon commencing a contractual relationship with the company post-Listing. The initial benchmark level for new fertility specialists is 50 IVF cycles and subsequent benchmark levels are at each 50 cycle increment thereafter.

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 new fertility specialists who join the company, 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 be exercisable into a variable number of shares based on the terms of issue of the options. The number of shares to be issued will be calculated by multiplying the applicable component of the offer value of the grant by the amount of the increase in the share price between the share price at vesting compared to the price at grant all divided by the share price at vesting.

Participants will not need to pay any money to be granted options under the Plans.

High performance options – fertility specialists

The Virtus Board wishes to recognise those Fertility Specialists that achieve a high level of fresh cycles over a defined period acknowledging the value they generate for all stakeholders. The Board has created a new High Performer Share Incentive Scheme to reward Fertility Specialists who consistently deliver more than 400 cycles per annum for a consecutive three year period.

The structure for the incentive is set out below:

The High Performer incentive will have a performance hurdle whereby fertility specialists are required to achieve fresh cycle activity at greater than or equal to 400 cycles per annum over a consecutive three year qualifying period; The first incentive period commenced on 1 January 2014 and will run for a three year period ending 31 December 2016.

The base price at date of grant will be the average daily closing share price for the month ending 31 December 2013; this has been calculated as \$8.69; the base value of the incentive will be \$500,000; The first vesting date is 1 January 2017 and vesting is also dependent on the ordinary share price at exercise being higher than the base price set at the time of incentive commencement:

- The actual number of vested options awarded will be in accordance with the calculation methodology applied to the fertility specialist performance incentive structure;
- Performance option grants may still be accrued for incremental performance above 400 cycles.
- Once a vesting award is achieved after three years of consecutive high performance, a fertility specialist may then commence a new three year high performer incentive period. For example in a six year period a fertility specialist may achieve 2 vested awards with a base value of \$500,000 each if he/she achieves 400 cycles per annum for a consecutive period of 6 years.
- The 2015-2017 high performer share incentive will commence on 1 January 2015 for all eligible fertility specialists who do not achieve 400 cycles in calendar year 2014. The base price at date of grant will be the average daily closing share price for the month ending 31 December 2014.
- The high performer share incentive will be administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan ("Plan") approved by the Board in June 2013.

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.

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:

- Glenn Powers – Group Chief Financial Officer and Company Secretary
- Brendan Ayres – former Managing Director, New South Wales (up to 26 September 2013)
- Nadia Stankovic – Managing Director, New South Wales (from 1 June 2014)
- Andrew Othen – Managing Director, Victoria
- Steve Zappia – Managing Director, Queensland
- Peter Illingworth – Medical Director, New South Wales
- David Molloy – Medical Director, Queensland

DIRECTORS' REPORT (continued)

2014	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary and termination \$	Super-annuation \$	Long service leave \$	Equity - settled \$	
<i>Non-Executive Directors:</i>							
P Macourt	129,291	-	-	11,959	-	-	141,250
D O'Neill*	109,040	-	-	7,620	-	-	116,660
P Turner	84,668	-	-	7,832	-	-	92,500
M Darville**	-	-	-	-	-	-	-
<i>Executive Directors:</i>							
S Channon	440,008	78,275	-	24,992	26,146	110,149	679,570
L Hale	75,000	-	-	-	-	-	75,000
<i>Other Key Management Personnel:</i>							
G Powers	305,000	47,975	-	25,010	6,156	62,943	447,084
B Ayres	73,964	-	52,929	10,934	-	-	137,827
N Stankovic	9,100	-	-	842	340	-	10,282
A Othen	283,197	40,547	-	31,489	7,543	-	362,776
S Zappia	236,748	20,091	-	21,797	353	-	278,989
P Illingworth	176,288	-	-	-	-	-	176,288
D Molloy	79,943	-	-	-	-	-	79,943
	2,002,247	186,888	52,929	142,475	40,538	173,092	2,598,169

* Dennis O'Neill received fees of \$26,660 in the financial year ending 30 June 2014 in respect of his role as Advisory Chairman of Queensland Fertility Group Pty Ltd.; the role ceased in October 2013.

** Marcus Darville agreed to provide his services to Virtus for no salary or fee for the period of his directorship following the IPO in June 2013.

2013	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary and termination \$	Super-annuation \$	Long service leave \$	Equity - settled \$	
<i>Non-Executive Directors:</i>							
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
<i>Executive Directors:</i>							
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
<i>Other Key Management Personnel:</i>							
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 (until 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.

The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale, David Molloy and Peter Illingworth. Details are disclosed in Note 40 to the financial report.

DIRECTORS' REPORT (continued)

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

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2014	2013	2014	2013	2014	2013
<i>Non-Executive Directors:</i>						
P Macourt	100%	100%	-%	-%	-%	-%
M Darville	-%	100%	-%	-%	-%	-%
D O'Neill	100%	100%	-%	-%	-%	-%
P Turner	100%	100%	-%	-%	-%	-%
<i>Executive Directors:</i>						
S Channon	72%	78%	12%	17%	16%	5%
L Hale	100%	100%	-%	-%	-%	-%
<i>Other Key Management Personnel:</i>						
G Powers	75%	78%	11%	19%	14%	3%
B Ayres	100%	100%	-%	-%	-%	-%
A Othen	89%	65%	11%	12%	-%	23%
N Stankovic	100%	-%	-%	-%	-%	-%
S Zappia	93%	100%	7%	-%	-%	-%
P Illingworth	100%	100%	-%	-%	-%	-%
D Molloy	100%	100%	-%	-%	-%	-%
J Moller	-%	83%	-%	15%	-%	2%

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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2014	2013	2014	2013
<i>Executive Directors:</i>				
S Channon	51%	37%	49%	63%
<i>Other Key Management Personnel:</i>				
G Powers	51%	44%	49%	56%
A Othen	49%	74%	51%	26%
S Zappia	25%	-%	75%	-%

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: Lyndon Hale

Title: Executive Director

Agreement commenced: 11 June 2013

Term of agreement: No fixed end date

Details: Executive may terminate their fertility specialist contract by giving a minimum of six months' notice or maximum of twelve months' notice in writing. The company may terminate by giving 12 months' notice in writing. Upon the termination of the fertility specialist contract, the fertility specialist 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.

Name: Susan Channon

Title: Chief Executive Officer

Agreement commenced: 11 June 2013

Term of agreement: No fixed end date

Details: 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. 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.

Name: Glenn Powers

Title: Chief Financial Officer and Company Secretary

Agreement commenced: 11 June 2013

Term of agreement: No fixed end date

Details: 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. 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.

Other Key Management Personnel

Each of the company's state managing directors, Andrew Othen, Steve Zappia and Nadia Stankovic who replaced 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 six months;
- confidentiality provisions;
- leave entitlements, as a minimum, as per the National Employment Standard; and
- restraint provisions.

The company's state medical directors, Peter Illingworth and David Molloy, are contracted under fertility specialist agreements. The Executive may terminate their fertility specialist contract by giving a minimum of six months' notice or maximum of twelve months' notice in writing. The company may terminate by giving 12 months' notice in writing and upon the termination of the fertility specialist contract the fertility specialist 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.

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 2014.

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	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
11 June 2013	11 June 2016	11 June 2018	\$5.68	\$1.26
11 June 2013	27 February 2014	27 January 2017	\$5.68	\$1.43

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 2014 are set out below:

Name	Number of options granted during the year 2014	Number of options granted during the year 2013	Number of options vested during the year 2014	Number of options vested during the year 2013
Susan Channon	-	262,500	-	106,157
John Moller	-	-	-	80,497
Andrew Othen	135,397	135,397	135,397	262,786
Glenn Powers	-	150,000	-	104,176
Peter Illingworth	50,000	50,000	50,000	435,089

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 2014 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Andrew Othen *	193,618	139,263	-	-%
Peter Illingworth **	71,500	-	-	-%

* The consolidated entity agreed to issue 135,397 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 were formally granted on 28 January 2014.

** The consolidated entity agreed to issue 50,000 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 were formally granted on 28 January 2014.

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

E. Additional information

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

	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000
Sales revenue	201,249	186,581	165,119	127,197	116,969
EBITDA*	59,404	43,429	48,708	40,510	33,419
EBIT	51,212	34,684	39,736	32,233	17,713
Profit/(loss) after income tax	30,957	10,104	19,660	15,337	(1,644)

* 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:

	2014	2013	2012*	2011*	2010*
Share price at financial year end (\$)	8.16	6.45	-	-	-
Total dividends declared (cents per share)	12.00	133.50	-	-	-
Basic earnings per share (cents per share)	38.80	17.78	36.73	-	-
Diluted earnings per share (cents per share)	38.48	16.78	34.22	-	-

* Share price is not applicable for the years 2010 to 2012 as the company was not a listed entity in these years.

F. Additional disclosures relating to key management personnel

In accordance with Class Order 14/632, issued by the Australian Securities and Investments Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosures relate only to equity instruments in the Company or its subsidiaries.

Shareholding

The number of shares in the company 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:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Peter Macourt	18,485	-	-	-	18,485
Susan Channon	448,633	-	-	-	448,633
Dennis O'Neill	50,000	-	-	-	50,000
Lyndon Hale	823,694	-	-	-	823,694
Peter Turner	50,000	-	-	-	50,000
Glenn Powers	114,150	-	-	-	114,150
Peter Illingworth	654,023	-	-	-	654,023
David Molloy	400,628	-	-	-	400,628
Andrew Othen	-	-	97,397	(97,397)	-
	2,559,613	-	97,397	(97,397)	2,559,613

Option holding

The number of options over ordinary shares in the company 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:

	Balance at the start of the year	Granted	Exercised/ cancelled	Expired/ forfeited/other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Susan Channon	262,500	-	-	-	262,500
Andrew Othen	-	135,397	(97,397)	-	38,000
Glenn Powers	150,000	-	-	-	150,000
Peter Illingworth	-	50,000	-	-	50,000
	412,500	185,397	(97,397)	-	500,500

This concludes the remuneration report, which has been audited.

DIRECTORS' REPORT (continued)

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 or base price	Number under option or shares to be issued
11 June 2013	11 June 2018	\$5.68	412,500
28 January 2014*	27 January 2017	\$5.68	438,005
20 January 2014**	20 January 2024	\$5.68	45,136
21 January 2014**	21 January 2024	\$8.49	-
21 January 2014**	21 January 2024	\$6.40	96,238
			991,879

* The consolidated entity 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, and the options were formally granted 28 January 2014. 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.

** The consolidated entity grants performance rights to fertility specialists as a dollar value; for the purpose of calculating the estimated number of shares under option, estimates of the share price at the time of vesting are forecast to facilitate an estimate of the number of shares to be issued at vesting.

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.

Shares issued on the exercise of options

During the financial year 186,077 ordinary shares were issued on the exercise of options. No share options were cancelled during the financial year. There were no shares of Virtus Health Limited issued on the exercise of options from 1 July 2014 up to and including the date of this report.

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 \$112,000 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 37 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 37 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

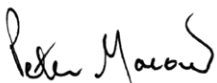
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

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

26 August 2014

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 2014, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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 cursive script that reads 'Eddie Wilkie'.

Eddie Wilkie
Partner
PricewaterhouseCoopers

Sydney
26 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757
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Liability limited by a scheme approved under Professional Standards Legislation.

FINANCIAL REPORT

GENERAL INFORMATION

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

Virtus Health Limited (ABN 80 129 643 492) 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 statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2014. The directors have the power to amend and reissue the financial statements.

STATEMENT OF COMPREHENSIVE INCOME	42
STATEMENT OF FINANCIAL POSITION	43
STATEMENT OF CHANGES IN EQUITY	44
STATEMENT OF CASH FLOWS	45
NOTES TO THE FINANCIAL STATEMENTS	46
DIRECTORS' DECLARATION	97
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRTUS HEALTH LIMITED	98

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2014

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Revenue	4	201,249	186,581
Share of profits of associates accounted for using the equity method	5	189	282
Other income	6	302	5,992
Expenses			
Fertility specialists, consumables and associated costs		(53,854)	(55,630)
Employee benefits expense		(61,395)	(56,126)
Depreciation and amortisation expense	8	(8,192)	(8,745)
Occupancy expense		(11,376)	(10,327)
Advertising and marketing		(2,797)	(2,991)
Practice equipment expenses		(1,355)	(1,443)
Professional and consulting fees		(1,542)	(2,072)
Initial Public Offering transaction costs		-	(10,651)
Other expenses		(9,668)	(9,734)
Finance costs	8	(7,719)	(20,781)
Profit before income tax expense		43,842	14,355
Income tax expense	9	(12,885)	(4,251)
Profit after income tax expense for the year		30,957	10,104
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax	30	(96)	-
Foreign currency translation	30	(400)	-
Other comprehensive income for the year, net of tax		(496)	-
Total comprehensive income for the year		30,461	10,104
Profit for the year is attributable to:			
Non-controlling interest		72	-
Owners of Virtus Health Limited	31	30,885	10,104
		30,957	10,104
Total comprehensive income for the year is attributable to:			
Non-controlling interest		72	-
Owners of Virtus Health Limited		30,389	10,104
		30,461	10,104
		Cents	Cents
Basic earnings per share	49	38.80	17.78
Diluted earnings per share	49	38.48	16.78

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

STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	10	21,498	12,485
Trade and other receivables	11	12,478	10,278
Inventories	12	166	291
Income tax refund due	13	-	1,084
Other	14	1,371	1,061
Total current assets		35,513	25,199
Non-current assets			
Investments accounted for using the equity method	15	1,489	1,514
Property, plant and equipment	16	28,207	26,579
Intangibles	17	356,077	325,060
Deferred tax	18	8,154	6,877
Other	19	341	235
Total non-current assets		394,268	360,265
Total assets		429,781	385,464
Liabilities			
Current liabilities			
Trade and other payables	20	23,516	17,485
Borrowings	21	62	138
Income tax	22	4,507	-
Provisions	23	2,418	2,040
Other	24	3,634	3,157
Total current liabilities		34,137	22,820
Non-current liabilities			
Borrowings	25	139,416	144,058
Derivative financial instruments	26	137	-
Provisions	27	4,663	3,997
Other financial liability	28	11,802	-
Total non-current liabilities		156,018	148,055
Total liabilities		190,155	170,875
Net assets		239,626	214,589
Equity			
Issued capital	29	237,135	231,981
Reserves	30	(1,610)	10,186
Accumulated losses	31	(6,139)	(27,578)
Equity attributable to the owners of Virtus Health Limited		229,386	214,589
Non-controlling interest	32	10,240	-
Total equity		239,626	214,589

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 2014

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
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 29)	102,502	-	-	102,502
Share-based payments	-	6,927	-	6,927
Capital return	(55,336)	-	-	(55,336)
Dividends paid (Note 33)	-	-	(74,599)	(74,599)
Balance at 30 June 2013	231,981	10,186	(27,578)	214,589

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2013	231,981	10,186	(27,578)	-	214,589
Profit after income tax expense for the year	-	-	30,885	72	30,957
Other comprehensive income for the year, net of tax	-	(496)	-	-	(496)
Total comprehensive income for the year	-	(496)	30,885	72	30,461
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (Note 29)	1,057	-	-	-	1,057
Share-based payments (Note 50)	-	456	-	-	456
Put option business combination reserve	-	(11,756)	-	-	(11,756)
Tax benefit now determined relating to a portion of options adjustments payments made in June 2013	4,097	-	-	-	4,097
Non-controlling interest on acquisition of subsidiary	-	-	-	10,168	10,168
Dividends paid (Note 33)	-	-	(9,446)	-	(9,446)
Balance at 30 June 2014	237,135	(1,610)	(6,139)	10,240	239,626

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 2014

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		201,699	184,343
Payments to suppliers (inclusive of GST)		(137,689)	(128,950)
		64,010	55,393
Other revenue		302	322
Interest and other finance costs paid		(6,694)	(15,597)
Income taxes paid		(5,077)	(12,314)
Net cash from operating activities	48	52,541	27,804
Cash flows from investing activities			
Payments for acquisition of subsidiary and businesses, net of cash acquired	42	(22,362)	(7,290)
Payments for property, plant and equipment and intangibles		(8,007)	(10,616)
Proceeds from sale of property, plant and equipment		-	202
Interest received		349	452
Associate distributions received		50	-
Net cash used in investing activities		(29,970)	(17,252)
Cash flows from financing activities			
Proceeds from issue of shares		1,057	126,791
Payment of dividends		(9,446)	(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		8,000	391,046
Repayment of borrowings		(13,000)	(355,171)
Payment on termination of hedges		-	(3,081)
Payment for finance lease facility		(138)	(327)
Net cash used in financing activities		(13,527)	(7,506)
Net increase in cash and cash equivalents		9,044	3,046
Cash and cash equivalents at the beginning of the financial year		12,485	9,439
Effects of exchange rate changes on cash and cash equivalents		(31)	-
Cash and cash equivalents at the end of the financial year	10	21,498	12,485

The above statement of cash flows 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.

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 Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns 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 that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has 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.

AASB 11 Joint Arrangements

The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements 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 are accounted for using the

equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. 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'.

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

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

Note 1. Significant accounting policies (continued)

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

The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

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

The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 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.

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

The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends 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.

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

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). 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.

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 41.

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 2014 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'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. 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.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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 presented 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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

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 investment properties 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 interests in subsidiaries, associates or 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 entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

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.

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. 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 associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. 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.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Property, plant and equipment

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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

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 of disposal 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.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave where there is no unconditional right to defer settlement of the liability are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. 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.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using option pricing models that takes 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 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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying option pricing models, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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 or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee 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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

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.

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 2014. 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 and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (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. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

IFRS 15 Revenue from Contracts with Customers

This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Significant accounting policies (continued)

of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed 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.

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

These 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 of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2014-1 Amendments to Australian Accounting Standards

These amendments are in several parts. Part A makes various amendments to Australian Accounting Standards arising from the issuance of IASB's 'Annual Improvements to IFRSs 2010-2012 Cycle' and 'Annual Improvements to IFRSs 2011-2013 Cycle'. Part B makes amendments to AASB 119 'Employee in relation to the requirements for contributions from employees or third parties that are linked to service which arise from the issuance of IASB's 'Defined Benefit Plans – Employee Contributions (Amendments to IAS 19)'. Part C makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 'Materiality'. Part D makes consequential amendments arising from the issuance of AASB 14 'Regulatory Deferral Accounts'. Part E makes consequential amendments to numerous other Standards as a consequence of the introduction of hedge accounting requirements into AASB 9 'Financial Instruments' in December 2013. Amendments Part A to D are applicable to annual reporting periods beginning on or after 1 July 2014 or as specified in each Part. Amendments Part E are applicable to annual reporting periods beginning on or after 1 January 2015 or as specified in Part E.

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments affect several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair

Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments will not have a material impact on 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 option-pricing 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2. Critical accounting judgements, estimates and assumptions (continued)

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 impairment of 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 that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal 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. The determination of the liability relating to put options linked to business combinations requires estimations to be made of the future profitability of the acquired entity and the discount rates used.

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 four operating segments being New South Wales, Queensland, Victoria and International. The consolidated entity has determined that the disclosure of two segments, being an Australian aggregated healthcare services segment and an International healthcare services segment is most appropriate. Disclosure of an aggregated segment for Australia is considered 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.

Following the acquisition of Sims Clinic Limited on 30 May 2014, an international segment has been created. This segment includes the Asia development costs and the set-up costs relating to the planned Singapore operations.

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.

Operating segment information

	Healthcare services Australia \$'000	Healthcare services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated – 2014				
Revenue				
Sales to external customers	198,484	1,535	-	200,019
Intersegment sales	4,728	-	(4,728)	-
Total sales revenue	203,212	1,535	(4,728)	200,019
Other revenue	876	5	-	881
Interest revenue	314	-	35	349
Total revenue	204,402	1,540	(4,693)	201,249
Segment EBITDA				
Share based payment expense	(282)	-	(174)	(456)
Other non-trading expenses	(750)	(530)	-	(1,280)
Depreciation and amortisation expense	(8,070)	(28)	(94)	(8,192)
Interest revenue	314	-	35	349
Interest expense	-	-	(7,256)	(7,256)
Amortisation of bank facility fee	-	-	(463)	(463)
Profit/(loss) before income tax expense	52,050	(256)	(7,952)	43,842
Income tax expense				(12,885)
Profit after income tax expense				30,957
Assets				
Segment assets	484,651	39,461	(111,685)	412,427
<i>Unallocated assets:</i>				
Cash and cash equivalents				5,857
Deferred tax asset				8,140
Other receivables				1,150
Property, plant and equipment				1,098
Intangibles				1,109
Total assets				429,781
<i>Total assets includes:</i>				
Investments in associates	1,489	-	-	1,489
Acquisition of non-current assets	5,723	33,000	2,284	41,007
Liabilities				
Segment liabilities	132,925	17,006	(106,579)	43,352
<i>Unallocated liabilities:</i>				
Trade payables				1,239
Other payables				1,047
Provision for income tax				4,507
Employee provisions				620
Non-current borrowings				139,253
Derivative financial instruments				137
Total liabilities				190,155

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3. Operating segments (continued)

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 ('IPO') 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	(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

NOTE 4. REVENUE

	Consolidated	
	2014 \$'000	2013 \$'000
<i>Sales revenue</i>		
Rendering of services	200,019	185,304
<i>Other revenue</i>		
Interest	349	452
Rent	881	825
	1,230	1,277
	201,249	186,581

NOTE 5. SHARE OF PROFITS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	2014 \$'000	2013 \$'000
Share of profit - associates	189	282

NOTE 6. OTHER INCOME

	Consolidated	
	2014 \$'000	2013 \$'000
Net gain on acquisition of associate	-	5,670
Other income	302	322
Other income	302	5,992

NOTE 7. RECONCILIATION OF GAIN ARISING FROM ACQUISITION OF THE ADDITIONAL 50% OF ASSOCIATE

	Consolidated	
	2014 \$'000	2013 \$'000
Reconciliation of gain arising from acquisition of the additional 50% of City East Specialist Day Hospital Pty Ltd		
Carrying value of 50% investment	-	2,433
Purchase price for 50% (Note 42)	-	(8,103)
Gain on acquisition of an associate (Note 6)	-	(5,670)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8. EXPENSES

	Consolidated	
	2014 \$'000	2013 \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	3,239	2,825
Furniture and fittings	111	291
Office equipment	290	400
Medical equipment	2,723	2,428
Total depreciation	6,363	5,944
<i>Amortisation</i>		
Software	911	1,880
Brand names	918	921
Total amortisation	1,829	2,801
Total depreciation and amortisation	8,192	8,745
<i>Finance costs</i>		
Interest and finance charges paid/payable	7,256	15,856
Interest rate swaps (net)	-	(136)
Amortisation of bank facility fees	463	5,061
Finance costs expensed	7,719	20,781
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	8,557	7,746
<i>Superannuation expense</i>		
Defined contribution superannuation expense	4,094	3,758
<i>Research costs</i>		
Research costs	3,441	2,734
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	283	6,380
Share-based payments expense - employee benefits	173	547
Total share-based payments expense	456	6,927

NOTE 9. INCOME TAX EXPENSE

	Consolidated	
	2014 \$'000	2013 \$'000
<i>Income tax expense</i>		
Current tax	10,947	6,112
Deferred tax – origination and reversal of temporary differences	2,308	(1,661)
Adjustment recognised for prior periods	(370)	(200)
Aggregate income tax expense	12,885	4,251
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (Note 18)	2,308	(1,661)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	43,842	14,355
Tax at the statutory tax rate of 30%	13,153	4,307
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	137	2,078
Research and development	(434)	(270)
Gain on acquisition of associate	–	(1,701)
Sims IVF acquisition transaction costs	256	–
Other	32	37
Tax losses not recognised	92	–
	13,236	4,451
Adjustment recognised for prior periods	(370)	(200)
Difference in overseas tax rates	19	–
Income tax expense	12,885	4,251
<i>Amounts credited directly to equity</i>		
Deferred tax assets (Note 18)	(4,138)	(1,887)

NOTE 10. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2014 \$'000	2013 \$'000
Cash at bank and on hand	21,498	12,485

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2014 \$'000	2013 \$'000
Trade receivables	11,748	8,162
Less: Provision for impairment of receivables	(1,104)	(1,229)
	10,644	6,933
Other receivables	1,834	3,345
	12,478	10,278

Impairment of receivables

The consolidated entity has recognised a loss of \$355,000 (2013: \$477,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2014.

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

	Consolidated	
	2014 \$'000	2013 \$'000
3 to 6 months overdue	461	382
Over 6 months overdue	643	847
	1,104	1,229

The nominal value of the impaired receivables is \$1,565,000 (2013: \$1,457,000).

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

	Consolidated	
	2014 \$'000	2013 \$'000
Opening balance	1,229	752
Additional provisions recognised	510	477
Additions through business combinations	192	-
Receivables written off during the year as uncollectable	(672)	-
Unused amounts reversed	(155)	-
Closing balance	1,104	1,229

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$1,537,000 as at 30 June 2014 (\$2,040,000 as at 30 June 2013).

The consolidated entity did not consider the credit risk to be material 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	
	2014 \$'000	2013 \$'000
1 to 3 months overdue	1,537	2,040

No collateral is held in relation to the above receivables.

NOTE 12. CURRENT ASSETS – INVENTORIES

	Consolidated	
	2014 \$'000	2013 \$'000
Stock on hand – at cost	166	291

NOTE 13. CURRENT ASSETS – INCOME TAX REFUND DUE

	Consolidated	
	2014 \$'000	2013 \$'000
Income tax refund due	-	1,084

NOTE 14. CURRENT ASSETS – OTHER

	Consolidated	
	2014 \$'000	2013 \$'000
Prepayments	1,371	1,061

NOTE 15. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	2014 \$'000	2013 \$'000
Investment in associates	1,489	1,514

Refer to Note 44 for further information on interests in associates.

NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2014 \$'000	2013 \$'000
Leasehold improvements – at cost	28,732	27,034
Less: Accumulated depreciation	(14,125)	(10,456)
	14,607	16,578
Plant and equipment – at cost	1,990	1,990
Less: Accumulated depreciation	(1,990)	(1,990)
	-	-
Furniture and fittings – at cost	1,218	1,189
Less: Accumulated depreciation	(494)	(621)
	724	568
Office equipment – at cost	3,460	2,624
Less: Accumulated depreciation	(1,886)	(1,895)
	1,574	729
Medical equipment – at cost	21,468	16,044
Less: Accumulated depreciation	(10,166)	(7,340)
	11,302	8,704
	28,207	26,579

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Plant and equipment \$'000	Furniture and fittings \$'000	Office equipment \$'000	Medical equipment \$'000	Total \$'000
Balance at 1 July 2012	13,247	-	804	951	7,594	22,596
Additions	6,244	-	141	188	3,350	9,923
Additions through business combinations (Note 42)	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
Additions	1,504	-	175	1,107	4,121	6,907
Additions through business combinations (Note 42)	108	-	93	-	1,227	1,428
Disposals	(160)	-	-	-	(10)	(170)
Exchange differences	(1)	-	(1)	-	(17)	(19)
Transfers in/(out)	(183)	-	-	28	-	(155)
Depreciation expense	(3,239)	-	(111)	(290)	(2,723)	(6,363)
Balance at 30 June 2014	14,607	-	724	1,574	11,302	28,207

Property, plant and equipment secured under finance leases

Refer to Note 39 for further information on property, plant and equipment secured under finance leases.

NOTE 17. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated	
	2014 \$'000	2013 \$'000
Goodwill – at cost	345,988	319,029
Software – at cost	12,347	10,943
Less: Accumulated amortisation	(10,861)	(9,950)
	1,486	993
Brand names – at cost	13,581	9,095
Less: Accumulated amortisation	(4,978)	(4,057)
	8,603	5,038
	356,077	325,060

Note 17. Non-current assets – intangibles (continued)

Reconciliations

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

Consolidated	Goodwill \$'000	Software \$'000	Brand names \$'000	Total \$'000
Balance at 1 July 2012	304,357	2,213	5,959	312,529
Additions	-	660	-	660
Additions through business combinations (Note 42)	14,672	-	-	14,672
Amortisation expense	-	(1,880)	(921)	(2,801)
Balance at 30 June 2013	319,029	993	5,038	325,060
Additions	-	1,100	-	1,100
Additions through business combinations (Note 42)	27,291	149	4,538	31,978
Exchange differences	(332)	-	(55)	(387)
Transfers in/(out)	-	155	-	155
Amortisation expense	-	(911)	(918)	(1,829)
Balance at 30 June 2014	345,988	1,486	8,603	356,077

Impairment tests for goodwill

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

	Consolidated	
	2014 \$'000	2013 \$'000
New South Wales	114,881	114,881
Victoria	124,904	124,904
Queensland	79,244	79,244
International	26,959	-
	345,988	319,029

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 17. Non-current assets – intangibles (continued)

Key assumptions used for value in use calculations

Long term growth rate

New South Wales – 3% (2013: 4%)

Victoria – 3% (2013: 4%)

Queensland – 3% (2013: 4%)

Pre-tax discount rate

New South Wales – 11.5% (2013: 12%)

Victoria – 11.5% (2013: 12%)

Queensland – 11.5% (2013: 12%)

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	
	2014 \$'000	2013 \$'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Impairment of receivables	331	349
Property, plant and equipment	(262)	(759)
Employee benefits	2,499	2,177
Provision for lease make good	919	795
Accrued expenses	253	660
Intangible assets	(1,822)	(1,512)
Other	2,322	3,280
	4,240	4,990
Amounts recognised in equity:		
Transaction costs on share issue	1,415	1,887
Deductible option adjustment payments	2,458	-
Other	41	-
	3,914	1,887
Deferred tax assets	8,154	6,877
Amount expected to be recovered within 12 months	1,760	2,692
Amount expected to be recovered after more than 12 months	6,394	4,185
	8,154	6,877
<i>Movements:</i>		
Opening balance	6,877	3,329
Credited/(charged) to profit or loss (Note 9)	(2,308)	1,661
Credited to equity (Note 9)	4,138	1,887
Additions through business combinations (Note 42)	(553)	-
Closing balance	8,154	6,877

NOTE 19. NON-CURRENT ASSETS – OTHER

	Consolidated	
	2014 \$'000	2013 \$'000
Security deposits	341	235

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2014 \$'000	2013 \$'000
Trade payables	10,284	6,524
Other payables	13,232	10,961
	23,516	17,485

Refer to Note 34 for further information on financial risk management

NOTE 21. CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2014 \$'000	2013 \$'000
Lease liability	62	138

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

Refer to Note 34 for further information on financial risk management.

NOTE 22. CURRENT LIABILITIES – INCOME TAX

	Consolidated	
	2014 \$'000	2013 \$'000
Provision for income tax	4,507	-

NOTE 23. CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2014 \$'000	2013 \$'000
Employee benefits – long service leave	2,418	2,040

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	
	2014 \$'000	2013 \$'000
Long service leave obligation expected to be settled after 12 months	1,731	1,460

NOTE 24. CURRENT LIABILITIES – OTHER

	Consolidated	
	2014 \$'000	2013 \$'000
Deferred revenue	3,634	3,157

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25. NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2014 \$'000	2013 \$'000
Bank loans (net of borrowing costs)	139,281	143,879
Lease liability	135	179
	139,416	144,058

Refer to Note 34 for further information on financial risk management.

Total secured liabilities

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

	Consolidated	
	2014 \$'000	2013 \$'000
Bank loans (net of borrowing costs)	139,281	143,879
Lease liability	197	317
	139,478	144,196

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. Guarantees are not provided by subsidiaries which are not based in Australia and there are no fixed or floating charges over the assets of the international subsidiaries of the consolidated entity. However the shares representing the ownership interest in the international subsidiaries are included in the charges over the consolidated entity.

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 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 amount of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2014 \$'000	2013 \$'000
Cash and cash equivalents	18,820	12,485
Receivables	11,052	10,278
Inventories	192	291
Income tax refund due	-	1,084
Other current assets	1,251	1,061
Investments	24,972	1,514
Plant and equipment	26,783	26,579
Intangible assets (excluding goodwill)	5,606	6,031
Deferred tax assets	8,140	6,877
Other financial assets	141	235
	96,957	66,435

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

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

	Consolidated	
	2014 \$'000	2013 \$'000
Total facilities		
Bank loans *	140,000	140,000
Working capital facilities *	10,000	15,000
	150,000	155,000
Used at the reporting date		
Bank loans *	140,000	140,000
Working capital facilities *	3,366	9,351
	143,366	149,351
Unused at the reporting date		
Working capital facilities *	6,634	5,649
	6,634	5,649

* Credit facilities expire in June 2016

The consolidated entity has complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2014 and 30 June 2013.

Working capital facilities utilised consist of \$3,365,551 of bank guarantees.

NOTE 26. NON-CURRENT LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2014 \$'000	2013 \$'000
Interest rate swap contracts – cash flow hedges	137	-

Refer to Note 34 for further information on financial risk management.

Refer to Note 35 for further information on fair value measurement

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27. NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2014 \$'000	2013 \$'000
Employee benefits – long service leave	1,599	1,349
Lease make good	3,064	2,648
	4,663	3,997

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.

Movements in provisions

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

Consolidated – 2014	Lease make good \$'000
Carrying amount at the start of the year	2,648
Additional provisions recognised	337
Unwinding of discount	79
Carrying amount at the end of the year	3,064

NOTE 28. NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITY

	Consolidated	
	2014 \$'000	2013 \$'000
Other financial liability	11,802	-

Refer to Note 34 for other information on financial instruments.

The other financial liability represents the fair value of the put options held by the non-controlling interests in Sims Clinic Limited.

NOTE 29. EQUITY – ISSUED CAPITAL

	Consolidated			
	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
Ordinary shares – fully paid	79,722,678	79,536,601	237,135	231,981

Movements in ordinary share capital

Details	Date	Shares	Issue Price	\$'000
Balance	1 July 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 issued – exercise of options	7 February 2014	50,000	\$5.68	284
Shares issued – exercise of options	11 March 2014	38,680	\$5.68	220
Shares issued – exercise of options	13 March 2014	97,397	\$5.68	553
Tax benefit now determined relating to a portion of options adjustment payments made in June 2013		–		4,097
Balance*	30 June 2014	79,722,678		237,135

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.

* All shares on issue are fully paid apart from 2,009,880 shares which are partly paid. The 2,009,880 shares were issued at \$4.71 per share and are unpaid up to the extent of \$2.58 per share at 30 June 2014.

** 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.

*** 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.

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 30. EQUITY – RESERVES

	Consolidated	
	2014 \$'000	2013 \$'000
Foreign currency translation reserve	(400)	-
Cash flow hedges reserve	(96)	-
Share-based payments reserve	10,642	10,186
Put option business combination reserve	(11,756)	-
	(1,610)	10,186

Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Cash flow hedges reserve

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

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 other parties as part of their compensation for services.

Put option business combination reserve

The reserve is used to recognise the impact of the non-controlling interest put options relating to the Sims Clinic Limited acquisition.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency translation reserve \$'000	Cash flow hedges reserve \$'000	Share-based payments reserve \$'000	Put option business combination reserve \$'000	Total \$'000
Balance at 1 July 2012	-	-	3,259	-	3,259
Option expense	-	-	6,927	-	6,927
Balance at 30 June 2013	-	-	10,186	-	10,186
Revaluation - net	-	(96)	-	-	(96)
Foreign currency translation	(400)	-	-	-	(400)
Option expense	-	-	456	-	456
Business combination	-	-	-	(11,756)	(11,756)
Balance at 30 June 2014	(400)	(96)	10,642	(11,756)	(1,610)

NOTE 31. EQUITY - ACCUMULATED LOSSES

	Consolidated	
	2014 \$'000	2013 \$'000
Retained profits/(accumulated losses) at the beginning of the financial year	(27,578)	36,917
Profit after income tax expense for the year	30,885	10,104
Dividends paid (Note 33)	(9,446)	(74,599)
Accumulated losses at the end of the financial year	(6,139)	(27,578)

NOTE 32. EQUITY - NON-CONTROLLING INTEREST

	Consolidated	
	2014 \$'000	2013 \$'000
Reserves	10,168	-
Retained profits	72	-
	10,240	-

NOTE 33. EQUITY - DIVIDENDS**Dividends**

Dividends paid during the financial year were as follows:

	Consolidated	
	2014 \$'000	2013 \$'000
Interim ordinary dividend for the year ended 30 June 2014 (2013: 30 June 2013) of 12.0 cents (2013: 51.5 cents) per fully paid share paid in April 2014	9,446	28,765
Interim ordinary dividend for the year ended 30 June 2013 of 82.0 cents per fully paid ordinary share paid in August 2013	-	45,834
	9,446	74,599

A final dividend of 14.0 cents per share, fully franked, will be paid on 16 October 2014 to the shareholders on the register at 2 October 2014.

Franking credits

	Consolidated	
	2014 \$'000	2013 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	13,329	6,951

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 34. FINANCIAL RISK MANAGEMENT

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate 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 forward foreign exchange contracts 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 and beta analysis in respect of investment portfolios to determine market 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's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The group operates internationally and is exposed to foreign currency risk from various currency exposures, primarily with respect to the Euro.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

	Assets		Liabilities	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Consolidated				
Euro	3,854	-	(4,638)	-
Singapore dollars	-	-	(827)	-
	3,854	-	(5,465)	-

Consolidated - 2014	% change	AUD strengthened	Effect on equity	% change	AUD weakened	Effect on equity
		Effect on profit after tax \$	\$		Effect on profit after tax \$	\$
Euro	10%	55,000	55,000	(10%)	(55,000)	(55,000)
Singapore dollars	10%	58,000	58,000	(10%)	(58,000)	(58,000)
		113,000	113,000		(113,000)	(113,000)

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.

Note 34. Financial risk management (continued)

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.

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

	2014		2013	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Bank loans	4.65%	140,000	4.93%	145,000
Interest rate swaps (notional principal amount)	–%	(50,000)	–%	–
Net exposure to cash flow interest rate risk		90,000		145,000

During the year 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 – 2014						
Bank loans	100	(630,000)	(630,000)	(100)	630,000	630,000
Consolidated – 2013						
Bank loans	100	(1,007,300)	(1,007,300)	(100)	1,007,300	1,007,300

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 consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 34. Financial risk management (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2014 \$'000	2013 \$'000
Working capital facilities * (Note 25)	6,634	5,649
	6,634	5,649

* Credit facilities expire in June 2016.

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.

Consolidated - 2014	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
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	10,284	-	-	-	10,284
Other payables	-%	13,232	-	-	-	13,232
<i>Interest-bearing - variable</i>						
Bank loans	4.65%	6,510	146,519	-	-	153,029
Lease liability	7.66%	62	122	33	-	217
Other financial liability	4.65%	-	-	6,401	7,745	14,146
Total non-derivatives		30,088	146,641	6,434	7,745	190,908
Derivatives						
Derivative financial instruments	-%	-	137	-	-	137
Total derivatives		-	137	-	-	137

Consolidated - 2013

Non-derivatives

Non-interest bearing

Trade payables	-%	6,524	-	-	-	6,524
Other payables	-%	10,961	-	-	-	10,961

Interest-bearing - variable

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

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTE 35. FAIR VALUE MEASUREMENT**Fair value hierarchy**

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Level 4 \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	137	-	137
Other financial liabilities	-	-	11,802	11,802
Total liabilities	-	137	11,802	11,939

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of other financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

NOTE 36. 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	
	2014 \$	2013 \$
Short-term employee benefits	2,242,064	2,346,164
Post-employment benefits	142,475	136,671
Long-term benefits	40,538	24,282
Share-based payments	173,092	154,456
	2,598,169	2,661,573

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 37. REMUNERATION OF AUDITORS

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

	Consolidated	
	2014 \$	2013 \$
<i>Audit services – PricewaterhouseCoopers</i>		
Audit or review of the financial statements	437,775	470,750
<i>Other services – PricewaterhouseCoopers</i>		
Due diligence	127,240	-
Tax compliance services	62,500	78,150
Advisory and tax fees for Initial Public Offering, refinancing and trade sale considerations	-	1,667,065
International tax consulting and tax advice on mergers and acquisitions	101,200	-
	290,940	1,745,215
	728,715	2,215,965
<i>Audit services – network firms</i>		
Audit or review of the financial statements	29,480	-
<i>Other services – network firms</i>		
Due diligence	25,373	-
	54,853	-

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 38. 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 \$25,000. 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 \$3,365,551 (2013: \$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 2 years (2013: 3 years).

NOTE 39. COMMITMENTS

	Consolidated	
	2014 \$'000	2013 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	-	358
<i>Lease commitments – operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	6,498	7,599
One to five years	13,966	17,902
More than five years	5,827	7,922
	26,291	33,423
<i>Lease commitments – finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	62	138
One to five years	155	217
Total commitment	217	355
Less: Future finance charges	(20)	(38)
Net commitment recognised as liabilities	197	317
Representing:		
Lease liability – current (Note 21)	62	138
Lease liability – non-current (Note 25)	135	179
	197	317

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 \$295,887 (2013: \$nil).

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$nil (30 June 2013: \$nil) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 40. RELATED PARTY TRANSACTIONS

Parent entity

Virtus Health Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 43.

Associates

Interests in associates are set out in Note 44.

Key management personnel

Disclosures relating to key management personnel are set out in Note 36 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2014 \$	2013 \$
Sale of goods and services:		
Rental income	84,574	136,992
Other transactions:		
Fees paid to related party for services to the Board of the ultimate Australian parent entity	-	50,000
Rental expense in respect of property at St George Private Hospital, Kogarah (i)	171,434	164,840
Rental expense in respect of property at 9 Scott Street, Toowoomba (ii)	63,744	61,490
Rental expense in respect of property at 225 Wickham Terrace, Brisbane (iii)	-	8,640
Provider fees (iv)	2,468,007	5,538,583
Share-based payments (v)	-	141,749
Quadrant Private Equity Pty Limited (vi)	-	988,352

- i. 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.
- ii. 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.
- iii. During the prior year, 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 was based on normal commercial terms and conditions.
- iv. The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale, Peter Illingworth and David Molloy (30 June 2013: John McBain, Manuela Toledo, Lyndon Hale, John Esler, David Molloy, Michael Chapman, Frank Quinn and Peter Illingworth).
- v. During the year ended 30 June 2013, the following key management personnel received share-based payments for IVF Services delivered to patients: John McBain, Manuela Toledo, Lyndon Hale, John Esler, David Molloy, Michael Chapman, Frank Quinn and Peter Illingworth.
- vi. During the year ended 30 June 2013, 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.

Note 40. Related party transactions (continued)**Receivable from and payable to related parties**

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

	Consolidated	
	2014 \$	2013 \$
Current receivables:		
Trade receivables from associate	887,965	780,179
Other receivables	5,396	15,968
Current payables:		
Other payables	159,610	567,347

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 were made on normal commercial terms and conditions and at market rates.

NOTE 41. PARENT ENTITY INFORMATION

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

Statement of comprehensive income

	Parent	
	2014 \$'000	2013 \$'000
Profit after income tax	12,759	125,387
Total comprehensive income	12,759	125,387

Statement of financial position

Total current assets	942	3,632
Total assets	272,634	264,167
Total current liabilities	1,306	1,568
Total liabilities	1,376	1,684
Net assets	271,258	262,483
Equity		
Issued capital	237,135	231,981
Share-based payments reserve	6,948	6,640
Retained profits	27,175	23,862
Total equity	271,258	262,483

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 41. Parent entity information (continued)

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 2014 and 30 June 2013 apart from being a party to the deed of cross guarantee as detailed in Note 45.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2014 and 30 June 2013.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2014 and 30 June 2013.

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 42. BUSINESS COMBINATIONS

Acquisition of Sims Clinic

On 30 May 2014, Virtus Health Pty Limited, acquired 70% of the issued share capital and units of Sims Clinic Limited. The values identified in relation to the acquisition of Sims Clinic Limited are provisional as at 30 June 2014.

	Fair value \$'000
Cash and cash equivalents	2,002
Trade receivables	2,915
Plant and equipment, and software	1,577
Brand names	4,538
Trade payables	(1,889)
Deferred tax liability	(553)
Employee benefits	(116)
Deferred revenue	(460)
Other provisions	(1,025)
Other payable	(386)
Net assets acquired	6,603
Goodwill	27,291
Acquisition-date fair value of the total consideration transferred	33,894
Goodwill is attributable to the workforce and the high profitability of the acquired entity.	
Representing:	
Cash paid or payable to vendor	24,364
Working capital adjustment receivable	(638)
Non-controlling interest	10,168
	33,894
Acquisition costs expensed to profit or loss	889

Note 42. Business combinations (continued)

	Consolidated	
	2014 \$'000	2013 \$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	24,364	-
Less: cash and cash equivalents	(2,002)	-
Net cash used	22,362	-

The acquired business contributed revenues and other income of \$1,540,000 and profit before tax of \$271,000 (excluding the cost of financing the transaction) to the Group for the period from 30 May 2014 to 30 June 2014. If the acquisition had occurred on 1 July 2013, the full year contributions would have been revenues of \$19,494,000 and profit before tax of \$4,115,000 excluding any additional financing or brand amortisation costs. These amounts have been calculated using the Group'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 2013.

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. 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:

	Fair value \$'000
Cash and cash equivalents	813
Trade receivables	1,004
Other current assets	82
Plant and equipment	532
Trade payables	(587)
Other provisions	(310)
Net assets acquired	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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 42. Business combinations (continued)

	Consolidated	
	2014 \$'000	2013 \$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	-	16,206
Less: shares issued by company as part of consideration	-	(813)
Less: fair value of initial 50% interest	-	(8,103)
Net cash used	-	7,290

	Fair value \$'000
Goodwill	4,952
Acquisition-date fair value of the total consideration transferred	4,952

NOTE 43. INTERESTS IN 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	Principal place of business / Country of incorporation	Ownership interest	
		2014 %	2013 %
IVF Finance Pty Limited	Australia	100.00%	100.00%
IVFA Sub-Holdings Pty Ltd	Australia	100.00%	100.00%
IVF Australia Pty Ltd	Australia	100.00%	100.00%
Melbourne IVF Holdings Pty Ltd	Australia	100.00%	100.00%
Melbourne I.V.F. Pty. Ltd.	Australia	100.00%	100.00%
The Heptarchy Trust	Australia	100.00%	100.00%
North Shore Specialist Day Hospital Pty Ltd	Australia	100.00%	100.00%
Queensland Fertility Group Pty. Ltd.	Australia	100.00%	100.00%
Spring Hill Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
The QFG Day Theatres Unit Trust	Australia	100.00%	100.00%
Hunter Fertility Pty Limited	Australia	100.00%	100.00%
Hunter Fertility Unit Trust	Australia	100.00%	100.00%
Bremiera Pty Limited	Australia	100.00%	100.00%
Queensland Fertility Group Gold Coast Pty Ltd	Australia	100.00%	100.00%
Gold Coast Obstetrics & Gynaecology Specialist Services Pty Ltd	Australia	100.00%	100.00%
Mackay Specialist Day Hospital Pty Limited	Australia	100.00%	100.00%
Maroubra Day Surgery Trust	Australia	100.00%	100.00%
City East Specialist Day Hospital Pty Ltd	Australia	100.00%	100.00%
Virtus Health Singapore Pte Ltd	Singapore	100.00%	100.00%
Virtus Health Europe Limited	United Kingdom	100.00%	-%
Virtus Health Ireland Limited	Ireland	100.00%	-%
Zentra Labs Limited	Ireland	70.00%	-%
Sims Clinic Limited	Ireland	70.00%	-%
Xentra Pharm Limited	Ireland	70.00%	-%
Sims Institute Limited	Ireland	70.00%	-%
Sims EDE Limited	Ireland	70.00%	-%

NOTE 44. INTERESTS IN ASSOCIATES

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2014 %	2013 %
Obstetrics & Gynaecological Imaging Australia Pty Ltd	Provision of medical services	50.00%	50.00%
City West Specialist Day Hospital Pty Ltd	Provision of medical services	50.00%	50.00%

Summarised financial information	2014 \$'000	2013 \$'000
<i>Summarised statement of financial position</i>		
Current assets	310	369
Non-current assets	1,656	1,780
Total assets	1,966	2,149
Current liabilities	1,419	1,632
Total liabilities	1,419	1,632
Net assets	547	517
<i>Summarised statement of comprehensive income</i>		
Revenue	2,594	2,480
Expenses	(2,405)	(2,198)
Profit before income tax	189	282
Other comprehensive income	-	-
Total comprehensive income	189	282

NOTE 45. 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, the wholly-owned entities have been relieved from the requirement to prepare financial statements 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'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 45. Deed of cross guarantee (continued)

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

	2014 \$'000	2013 \$'000
Statement of comprehensive income		
Revenue	103,493	93,949
Share of profits of associates accounted for using the equity method	189	282
Trust distributions received	25,334	21,498
Other income	1,882	5,528
Fertility specialists, consumables and associated costs	(28,548)	(31,002)
Employee benefits expense	(32,063)	(28,587)
Depreciation and amortisation expense	(4,594)	(4,686)
Occupancy expense	(6,235)	(4,628)
Advertising and marketing	(1,751)	(1,936)
Practice equipment expenses	(617)	(635)
Professional and consulting fees	(966)	(1,472)
Initial Public Offering transaction costs	-	(10,651)
Other expenses	(6,215)	(4,626)
Finance costs	(7,590)	(20,635)
Profit before income tax expense	42,319	12,399
Income tax expense	(12,604)	(3,682)
Profit after income tax expense	29,715	8,717
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(96)	-
Other comprehensive income for the year, net of tax	(96)	-
Total comprehensive income for the year	29,619	8,717
Equity - retained profits		
Retained profits/(accumulated losses) at the beginning of the financial year	(11,211)	54,671
Profit after income tax expense	29,715	8,717
Dividends paid	(9,446)	(74,599)
Retained profits/(accumulated losses) at the end of the financial year	9,058	(11,211)

Statement of financial position	2014	2013
	\$'000	\$'000
Current assets		
Cash and cash equivalents	11,902	6,877
Trade and other receivables	39,220	36,441
Income tax refund due	-	1,084
Other	762	420
	51,884	44,822
Non-current assets		
Investments accounted for using the equity method	1,489	1,514
Other financial assets	149,928	126,639
Property, plant and equipment	14,545	13,521
Intangibles	196,396	198,973
Deferred tax	8,707	6,723
Other	141	235
	371,206	347,605
Total assets	423,090	392,427
Current liabilities		
Trade and other payables	16,072	12,011
Income tax	4,369	-
Provisions	1,487	1,188
Other	2,450	2,268
	24,378	15,467
Non-current liabilities		
Borrowings	139,253	143,879
Derivative financial instruments	137	-
Provisions	2,583	2,125
	141,973	146,004
Total liabilities	166,351	161,471
Net assets	256,739	230,956
Equity		
Issued capital	237,135	231,981
Reserves	10,546	10,186
Accumulated losses	9,058	(11,211)
Total equity	256,739	230,956

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 46. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2014 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 47. RECONCILIATION OF GAIN ARISING FROM ACQUISITION OF THE ADDITIONAL 50% OF ASSOCIATE

	Consolidated	
	2014 \$'000	2013 \$'000
Reconciliation of gain arising from acquisition of the additional 50% of City East Specialist Day Hospital Pty Ltd		
Carrying value of 50% investment	-	2,433
Purchase price for 50% (Note 42)	-	(8,103)
Gain on acquisition of an associate (Note 6)	-	(5,670)

NOTE 48. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated	
	2014 \$'000	2013 \$'000
Profit after income tax expense for the year	30,957	10,104
Adjustments for:		
Depreciation and amortisation	8,192	8,745
Share of profit - associates	(189)	(282)
Share-based payments	456	6,927
Amortisation of bank facility fees	463	5,061
Interest on finance lease facility	17	80
Net gain on acquisition of associate	-	5,670
Interest income	(349)	(452)
Doubtful debts expense	355	(477)
Other non-cash items	(193)	(27)
Net (gain)/loss in disposal of non-current assets	170	326
Change in operating assets and liabilities:		
Decrease in trade and other receivables	1,255	1,394
Decrease/(increase) in inventories	125	(291)
Decrease/(increase) in deferred tax assets	2,267	(3,548)
Increase in trade and other payables	2,478	1,339
Increase/(decrease) in provision for income tax	5,591	(6,404)
Increase in other provisions	929	455
Increase/(decrease) in other operating liabilities	17	(816)
Net cash from operating activities	52,541	27,804

NOTE 49. EARNINGS PER SHARE

	Consolidated	
	2014 \$'000	2013 \$'000
Profit after income tax	30,957	10,104
Non-controlling interest	(72)	-
Profit after income tax attributable to the owners of Virtus Health Limited	30,885	10,104
Add: interest savings on conversion of options	157	529
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	31,042	10,633
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	79,593,751	56,829,522
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,087,109	6,529,017
Weighted average number of ordinary shares used in calculating diluted earnings per share	80,680,860	63,358,539
	Cents	Cents
Basic earnings per share	38.80	17.78
Diluted earnings per share	38.48	16.78

NOTE 50. 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.

Set out below are summaries of options granted under the plans:

2014

Effective grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised/cancelled	Expired/forfeited/other	Balance at the end of the year
11/06/2013	11/06/2018	\$5.68	412,500	-	-	-	412,500
01/07/2013	27/01/2017	\$5.68	-	450,000	(50,000)	-	400,000
01/07/2013	27/01/2017	\$5.68	-	174,082	(136,077)	-	38,005
01/07/2013	21/01/2024	\$0.00	-	141,374	-	-	141,374
			412,500	765,456	(186,077)	-	991,879

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 50. Share-based payments (continued)

On 1 July 2013, 765,456 options were issued under the Virtus Health Limited Option Plan. Details of the options granted are set out below.

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 date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
28/01/2014*	27/01/2017	\$6.45	\$5.68	30.50%	4.60%	3.40%	\$1.100
20/01/2014**	20/01/2024	\$6.45	\$0.00	28.30%	4.00%	2.60%	\$1.420
20/01/2014**	20/01/2024	\$6.45	\$0.00	28.30%	4.00%	2.80%	\$1.740
20/01/2014**	20/01/2024	\$6.45	\$0.00	28.30%	4.00%	3.00%	\$2.090
21/01/2014**	21/01/2024	\$6.45	\$0.00	28.30%	4.00%	2.80%	\$1.070
21/01/2014**	21/01/2024	\$6.45	\$0.00	28.30%	4.00%	3.00%	\$1.450
21/01/2014**	21/01/2024	\$6.45	\$0.00	28.30%	4.00%	3.10%	\$1.790

* The effective grant date occurred in the current financial year. However, these options were fully expensed in the financial year-end 30 June 2013.

** Grant date is the actual date of grant; the entitlement to the grant occurred on 1 July 2013. Share price at grant date is the share price at the time of entitlement.

Grants of options – fertility specialists

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 established in one of the financial years ending after June 2008.

In addition, consistent with the practice pre-Listing on the ASX, options will also be granted to new fertility specialists upon commencing a contractual relationship with the company post-Listing. The initial benchmark level for new fertility specialists is 50 IVF Cycles and subsequent benchmark levels are at each 50 cycle increment thereafter.

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 new fertility specialists who join the company, 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).

Fertility specialists will not need to pay an exercise price to exercise the options.

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 be exercisable into a variable number of shares based on the terms of issue of the options. The number of shares to be issued will be calculated by multiplying the applicable component of the offer value of the grant by the amount of the increase in the share price between the share price at vesting compared to the price at grant all divided by the share price at vesting.

Fertility specialists will not need to pay an exercise price to exercise the options.

High Performance Options – Fertility Specialists

The Board has created a new High Performer Share Incentive Scheme to reward Fertility Specialists who consistently deliver more than 400 cycles per annum for a consecutive three year period.

The High Performer incentive will have a performance hurdle whereby Fertility Specialists are required to achieve fresh cycle activity at greater than or equal to 400 cycles per annum over a consecutive three year qualifying period.

The first incentive period commenced on 1 January 2014 and will run for a three year period ending 31 December 2016; The base price at date of grant will be the average daily closing share price for the month ending 31 December 2013; this has been calculated as \$8.69; the base value of the incentive will be \$500,000;

The first vesting date is 1 January 2017 and vesting is also dependent on the ordinary share price at exercise being higher than the base price set at the time of incentive commencement;

- The actual number of vested options awarded will be in accordance with the calculation methodology applied to the Fertility Specialist performance incentive structure;
- Performance option grants may still be accrued for incremental performance above 400 cycles;
- Once a vesting award is achieved after three years of consecutive high performance, a Fertility Specialist may then commence a new three year high performer incentive period. For example in a six year period a Fertility Specialist may achieve 2 vested awards with a base value of \$500,000 each if he/she achieves 400 cycles per annum for a consecutive period of 6 years;
- The 2015-2017 high performer share incentive will commence on 1 January 2015 for all eligible Fertility Specialists who do not achieve 400 cycles in calendar year 2014. The base price at date of grant will be the average daily closing share price for the month ending 31 December 2014;
- The high performer share incentive will be administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 50. Share-based payments (continued)

2013			Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Expiry date	Exercise price					
12/11/2008	12/11/2018	\$4.12	312,527	-	(312,527)	-	-
25/02/2009	25/02/2019	\$4.12	44,000	-	(44,000)	-	-
01/07/2009	01/07/2019	\$3.11	450,000	-	(450,000)	-	-
01/10/2009	01/10/2019	\$3.11	241,491	-	(241,491)	-	-
01/07/2010	01/07/2020	\$4.71	327,389	-	(327,389)	-	-
01/09/2010	01/09/2020	\$4.71	106,157	-	(106,157)	-	-
01/07/2011	01/07/2021	\$5.17	258,027	-	(200,000)	(58,027)	-
17/08/2012	17/08/2022	\$4.71	-	1,650,000	(1,650,000)	-	-
24/08/2012	24/08/2022	\$5.17	-	450,000	(450,000)	-	-
07/10/2012	07/10/2022	\$5.17	-	174,082	(174,082)	-	-
11/06/2013	11/06/2018	\$5.68	-	412,500	-	-	412,500
10/04/2008	16/02/2015	\$1.64	60,976	-	(60,976)	-	-
10/04/2008	01/01/2016	\$3.15	183,496	-	(183,496)	-	-
10/04/2008	14/02/2017	\$3.15	216,075	-	(216,075)	-	-
10/04/2008	01/01/2018	\$3.26	228,100	-	(228,100)	-	-
10/04/2008	10/04/2018	\$2.98	9,000	-	(9,000)	-	-
10/04/2008	10/04/2018	\$2.53	1,550,000	-	(1,550,000)	-	-
10/04/2008	10/04/2018	\$0.01	403,536	-	(403,536)	-	-
20/11/2008	20/11/2018	\$0.00	272,470	-	(272,470)	-	-
			4,663,244	2,686,582	(6,879,299)	(58,027)	412,500

The weighted average exercise price is \$5.68.

During the year ended 30 June 2013, the consolidated entity 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 could not be formally granted until after September 2013. For compliance with AASB 2 'Share-based Payment' it was assumed that 11 June 2013 was the grant date for these options and the share-based payment cost of \$892,437 for these options was included in the statement of comprehensive income for the year ended 30 June 2013.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4 years (2013: 4.95 years).

DIRECTORS' DECLARATION

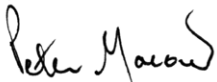
In the directors' opinion:

- 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 2014 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 45 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 MACCOURT

Chairman

26 August 2014
Sydney

INDEPENDENT AUDITOR'S REPORT to the members of Virtus Health Limited**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 2014, 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*.

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Liability limited by a scheme approved under Professional Standards Legislation.



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 2014 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 27 to 37 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Virtus Health Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

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

Eddie Wilkie
Partner

Sydney
26 August 2014

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 22 August 2014.

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	1,040	1
1,001 to 5,000	1,203	-
5,001 to 10,000	211	-
10,001 to 100,000	187	16
100,001 and over	64	3
	2,705	20
Holding less than a marketable parcel	-	-

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	
	Numbers held	% of total shares issued
Ellerston Capital	7,378,383	9.26
JCP Investment Partners	6,744,810	8.46
Platypus Asset Mgt	4,715,319	5.91
Goldman Sachs Asset Mgt	3,458,914	4.34
Celeste Funds Mgt	2,681,463	3.36
Antares Equities	2,525,767	3.17
Invesco Australia	2,061,355	2.59
Arnhem Investment Mgt	1,907,748	2.39
FIL Investment Mgt Australia	1,490,159	1.87
Norges Bank Investment Mgt	1,109,457	1.39
Russell Investments	1,109,375	1.39
Deutsche Bank	1,036,000	1.30
Havenport Asset Mgt	979,430	1.23
Karara Capital	921,188	1.16
F&S Quinn Trust	880,282	1.10
IFM Investors	839,049	1.05
Mr Lyndon G Hale	823,694	1.03
Vanguard Investments Australia	776,458	0.97
Mr & Mrs Michael G Buys	775,000	0.97
Acadian Asset Mgt (Australia)	760,773	0.95
	42,974,624	53.89

Unquoted equity securities

991,879 unlisted share options have been granted to 20 persons. Share options do not carry any voting rights.

SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Ordinary shares	
	Numbers held	% of total shares issued
Ellerston Capital	7,378,383	9.26
JCP Investment Partners	6,744,810	8.46
Platypus Asset Mgt	4,715,319	5.91

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:

Adelaide Room
Sofitel Sydney Wentworth
61 – 101 Phillip Street
SYDNEY NSW 2000

Time: 2.00pm

Date: Wednesday, 29 October 2014

REGISTERED OFFICE

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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 2000

SOLICITORS (AUSTRALIA)

Minter Ellison
Aurora Place
88 Phillip Street
Sydney NSW 2000

BANKERS

Australia and New Zealand Banking Group Limited,
Level 17,
242 Pitt Street
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, 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

