virtushealth
ABN 80 129 643 492

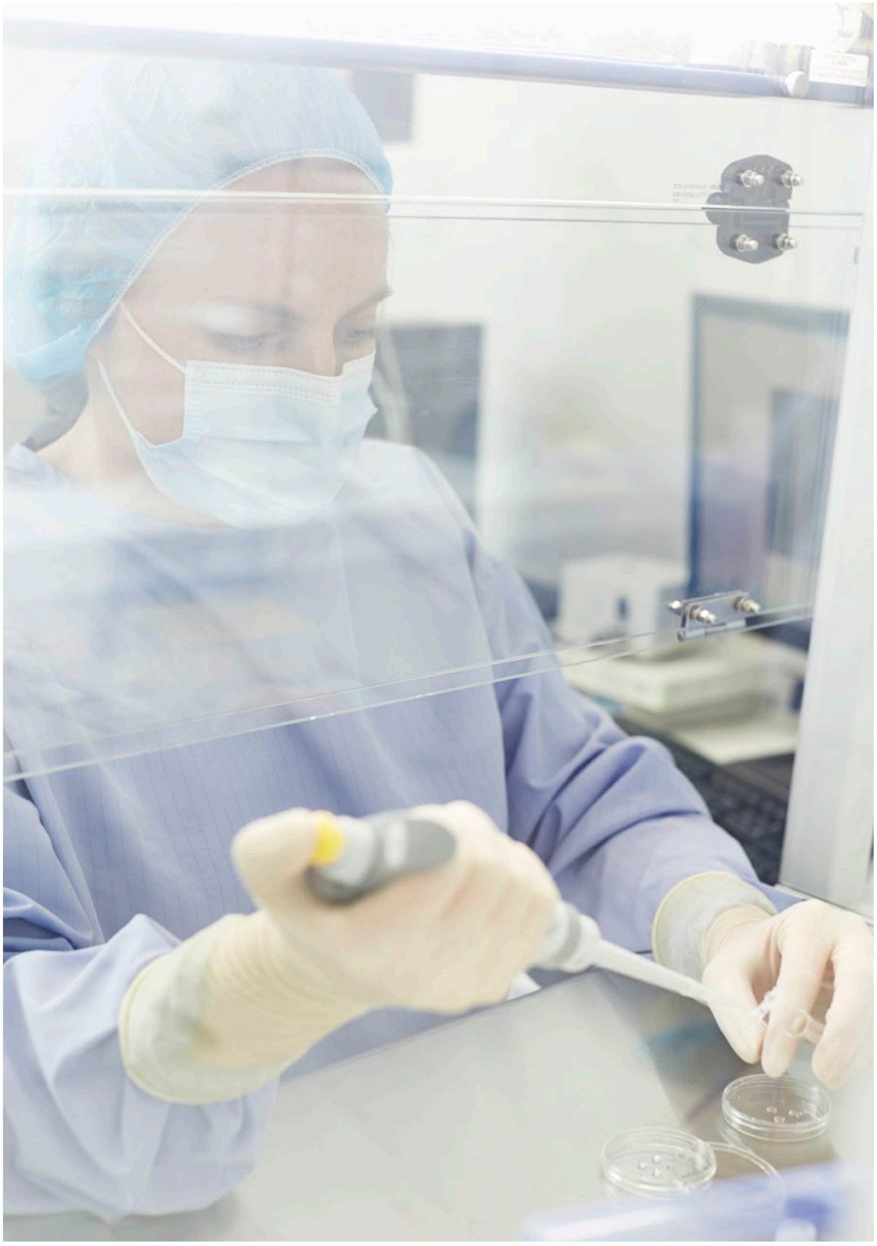
# ANNUAL REPORT

2015

**108**
FERTILITY SPECIALISTS

**881**
NURSES, COUNSELLORS AND PATIENT SUPPORT

**212**
SCIENTISTS



**44**
FERTILITY CLINICS

**6**
DAY HOSPITALS

**58**
LABORATORIES

# 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

## I AM PLEASED TO PRESENT THE ANNUAL REPORT OF VIRTUS HEALTH FOR THE FINANCIAL YEAR ENDING 30 JUNE 2015.

RESEARCH AND DEVELOPMENT IS INTEGRAL TO THE CLINICAL ACTIVITY OF VIRTUS AND SUPPORTS IMPROVED OUTCOMES FOR OUR PATIENTS.

**Our results for the financial year ending 30 June 2015 reflected cycle growth weakness in our Australian state markets and growth from our international activities. Group revenue increased 16% to $233.7 million primarily as a result of growth in Ireland and Singapore. We also benefited from the acquisitions of two Australian clinics, Sunshine Coast IVF and TasIVF in October and December 2014 respectively.**

Net profit after tax decreased 1.7% to $30.4 million. There were a number of significant factors that contributed to this decline. A change in clinical practice at Melbourne IVF resulted in a reduction in cycles and this translated into a revenue loss of approximately $3 million with a corresponding decline in earnings. The change led by our scientific and clinical team at Melbourne IVF has, we believe, had a positive benefit for our Victorian patients and so in the longer term will benefit the company. In Singapore we incurred set-up costs and start-up losses of approximately $1.9 million. In addition there were non-cash interest charges on future acquisition liabilities related to Sims Clinic Limited ("Sims") and TasIVF of $1.0 million and acquisition transaction costs of $1.4 million. After adjusting for the non-recurring expenses and non-cash interest adjusted net profit after tax increased by 5.1% to $33.6 million.

In the Australian markets in which we operate there was an overall market volume increase of 1.4% for Assisted Reproductive Services ("ARS") during the financial year, although this was largely driven by the increased activity of a bulk bill ARS provider in New South Wales ("NSW"). Some markets have remained weak with the Victorian market contracting 1.3% and Queensland market unchanged against prior year comparatives.

Underlying cycle volume in Virtus clinics declined by 1.6% with growth in New South Wales offset by a decline in Victoria and continued weakness in the Queensland market. We continue to experience growth in "The Fertility Centre" ("TFC") branded clinics with all states meeting growth objectives. However, this growth has been offset by weakness in full service cycles and the loss of a small amount of market share in Victoria and Queensland.

Specialised diagnostic revenue increased by 14.6% in FY2015, as a result of greater utilisation of cytogenetic and non-invasive pre-natal testing activities. Our commitment to improving patient outcomes through the application of diagnostic testing to improve ARS success rates and the treatment of complex infertility conditions has shown positive outcomes in terms of revenue growth, but more importantly, the delivery of healthy babies.

## ADJUSTED NPAT INCREASED 5.1% TO $33.6M

## GROUP REVENUE INCREASED 16% TO $233.7M

Our day hospitals achieved revenue growth of 4.3% with non-IVF revenue growth of 8.7% offsetting the weakness in IVF procedure revenue. City West Specialist Day Hospital in Sydney performed particularly well, and several locations improved their non-IVF procedure activity which now accounts for 56% of day hospital revenue.

Sue Channon and the executive team continued to build our domestic and international ARS capabilities with a range of new developments. Sims acquired in May 2014 and based in Dublin, Ireland enjoyed a year of strong volume growth and also expanded their clinic network to Cork, in the south west of Ireland. We also welcomed the team at Rotunda IVF to Sims in December and I am pleased to report that we completed our Irish business integration activities in June.

In January we opened a Virtus branded clinic in Singapore. We recruited three highly regarded fertility specialists and a senior embryology scientist who all have extensive experience in the Singapore ARS sector. The clinic fit-out and preparation for accreditation was supported by several people from our Australian teams working closely with our new Singaporean team. I am pleased to report that interest in our services from patients and other Singaporean fertility specialists has been increasing and we believe the clinic will provide an excellent service to the Singapore community.

In Australia we acquired TasIVF and Sunshine Coast IVF, which we rebranded to TFC Sunshine Coast. We also established a new TFC in Wollongong and a consulting and monitoring centre at Sydney Adventist Hospital.

In our core ARS activity the long term trend of women over 30 delaying the birth of children is a key factor in each of our geographic markets and the demand for ARS is expected to grow. Although market growth rate has moderated in Australia, Virtus believes that demand for ARS will be supported by a range of social and demographic drivers, continued improvements in success rates and the increased application of specialised diagnostic services.

We will continue to selectively invest in our network of full service and low cost fertility clinics and also the clinical and scientific services offered to patients in Australia and offshore. The Board is working closely with management to identify international markets where we can leverage the considerable expertise Virtus has in the provision of ARS.

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.

For the year ended 30 June 2015 the Directors are pleased to announce a final dividend of 14.0 cents per share fully franked and this resulted in a full year dividend payout of 27 cents per share fully franked, an increase of 3.8% over the prior year comparison.

Finally I would like to thank all of our staff, fertility specialists and management teams who contribute daily to the success of Virtus Health. As you will appreciate from this year's expansion activities we are fortunate to have a team of highly professional people committed to improving the services provided by Virtus Health.

Peter Macourt

**PETER MACOURT**
**Chairman**

# CHIEF EXECUTIVE'S OVERVIEW

THE DEDICATION, SKILL AND COMMITMENT OF OUR FERTILITY SPECIALISTS, STAFF AND A DIVERSE RANGE OF SPECIALIST PROVIDERS IN OUR DAY HOSPITALS MAKES VIRTUS HEALTH THE SUCCESS IT IS TODAY.

**Virtus is an Australian healthcare services company who has been a leader in the provision of Assisted Reproductive Services ("ARS") for more than 30 years. Our 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 doctors and scientists in Australia and leading scientific and clinical outcomes. Our strategy for diversification into new markets has continued this year with expansion both in Australia and internationally, driving growth.**

Whilst our main activity is providing patients with 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 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 doctors are supported by a team of medical, administrative and professional health care managers, allowing them to concentrate on patient care.

Virtus Health is one of the largest integrated practices and one of the most successful medical collaborations of its kind in the world. With 108 of the world's leading fertility specialists supported by 1,093 professional staff, we are the largest network and provider of fertility services in Australia. We are the largest provider of ARS in Ireland and in January 2015, we opened our first Virtus branded fertility centre in Singapore.

Our combined expertise creates a unique and powerful body of knowledge which when combined with the collegial team approach of our specialists and scientists, means we are able to find new and advanced solutions for achieving success for our patients. 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 clinics, fertility specialists and scientists 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) recognise 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, 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.

Virtus actively encourages the exchange of clinical and scientific ideas through a range of internal committees and also supports an annual international clinical day, where fertility specialists and senior scientists from across the group meet to review best practice and new clinical and scientific developments in ARS.

## FERTILITY SPECIALISTS AND EMPLOYEES

The dedication, skill and commitment of our fertility specialists, staff and a diverse range of specialist providers in our day hospitals makes Virtus Health the success it is today. It is this group of people who are collectively responsible for our exceptional patient care which is evident in our leading market position in Australia and Ireland. In new territories such as Singapore we will deliver the same high level of patient care and service.

As an organisation we support our staff in the ongoing delivery of operational excellence and exceptional patient care. Virtus encourage all employees to apply for employment opportunities across the group and subject to meeting the qualification requirements of individual position descriptions, seek to appoint employees to new positions.

Virtus is committed to ensuring the safety and well-being of all its employees and has a program committed to workplace safety. We have recently upgraded our incident reporting software to improve monitoring of workers' health and safety particularly in the areas of hazard analysis and incident reporting. Virtus provides an employee assistance program to support the well-being of its staff.

## LOOKING FORWARD

Virtus has built a strong foundation on which to base future growth.

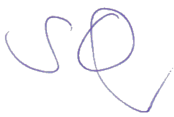
We are the leading provider of ARS in Australia and Ireland and have established a new clinic in Singapore.

Our focus on driving innovation and advancing the science and technology behind ARS ensures we remain at the forefront of fertility treatments. Our core strategy of "Leading Minds, Leading Science" remains essential to our long term growth plans and ability to attract the best doctors and staff to care for an increasing number of patients.

We have a full service premium ARS offering that is augmented by a clearly differentiated lower cost offering which enables us to optimise market share and this is underpinned by our vertically integrated business model across three key pillars – ARS, diagnostics and day hospitals.

This vertically integrated platform offers the full suite of services and treatment options for individuals requiring ARS and is a platform that facilitates further growth and diversification.

We will continue to grow our footprint with acquisitions and greenfield developments in key international and domestic markets and will look to further diversify our product offering across our three key pillars of ARS, diagnostics and day hospital services.

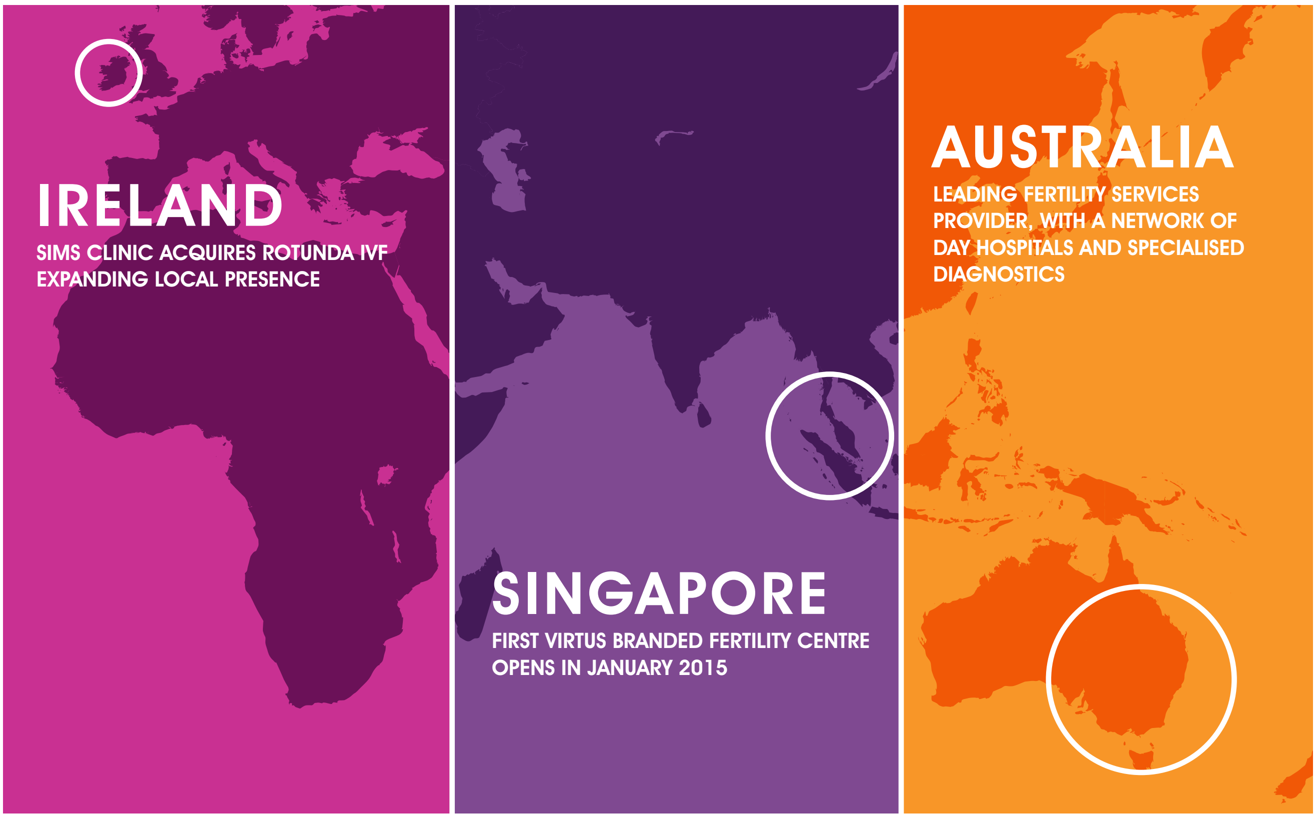


**Sue Channon**
**Group CEO**

# OPERATING AND FINANCIAL REVIEW

DEMAND FOR ARS WILL BE SUPPORTED BY A RANGE OF SOCIAL AND DEMOGRAPHIC DRIVERS AS WELL AS CON-TINUED IMPROVEMENTS IN SUCCESS RATES AND THE AP-

## OUR GLOBAL FOOTPRINT



## KEY FEATURES OF THE RESULTS ARE:

**$233.7m**

REVENUE INCREASED BY 16.1% TO $233.7

**$61.4m**

GROUP EBITDA INCREASED BY 3.3% TO $61.4M

**$71.0m**

SEGMENT EBITDA INCREASED BY 4.6% TO $71.0M

**$68.6m**

AUSTRALIAN SEGMENT EBITDA INCREASED BY 1.9% TO $68.6M

**INTERNATIONAL SEGMENT EBITDA WAS $2.4M INCLUDING SINGAPORE OPERATION START-UP LOSSES AND INTERNATIONAL BUSINESS DEVELOPMENT EXPENSES OF $1.9M**

**ADJUSTED NPAT AFTER ADDING BACK NON-RECURRING EXPENSES AND NON-CASH ACQUISITION RELATED INTEREST INCREASED BY 5.1% TO $33.6M**

**$30.4m**

NET PROFIT AFTER TAX ("NPAT") DECREASED BY 1.7% TO $30.4M

Segment EBITDA in Australia was adversely affected by a change in clinical practice at Melbourne IVF. The clinical and scientific team implemented a combined 'blastocyst' (five day embryo transfer) and two day embryo transfer protocol with the specific protocol applied being determined by the scientific and clinical team. The change in practice resulted in a slight reduction in the number of fresh cycles and a more significant reduction in frozen cycles undertaken and this translated into a revenue loss of approximately $3m compared to the prior year.
In the period since the change was effected Melbourne IVF has recorded improvements in their implantation rates for fresh and frozen embryos.

Adjusted NPAT is calculated after adding back non-recurring expenses and non-cash acquisition related interest totalling $3,174,000. Details of this adjustment are set out below:

- Singapore set-up costs of $911,000;
- A gain of $300,000 on the acquisition of Sunshine Coast IVF;
- Acquisition transaction costs of $1,146,000;
- Non-cash interest of $960,000 related to non-current liability to acquire non-controlling interests;
- Amortisation of bank fees of $653,000 relating to the retired borrowing facility; and
- Tax effect credit of $196,000 related to the above items.

## ACQUISITIONS

Virtus completed three acquisitions during the year:

- IVF Sunshine Coast – since acquiring the remaining 80% of this full service clinic at the end of October 2014 in conjunction with the three fertility specialists and the Scientific Director Virtus has established two new clinics:
  - Queensland Fertility Group, a full service clinic based in Buderim; and
  - a new TFC, based at Kawana Private Hospital
- TasIVF – Virtus acquired 70% of Tasmania's leading IVF clinic based in Hobart on 5 December 2014; and
- Human Assisted Reproductions Limited, ("Rotunda IVF") – our 70% owned subsidiary, Sims Clinic acquired an Irish fertility centre, the HARI clinic from the Rotunda Hospital in Dublin for €6 million on 31 December 2014.

# OPERATING AND FINANCIAL REVIEW
CONTINUED

WE RECENTLY ANNOUNCED THE ARRIVAL OF THE FIRST BABIES BORN USING OUR NEW KARYOMAPPING DIAGNOSTIC TECHNOLOGY.

## AUSTRALIA

There was an overall market volume increase in New South Wales, Queensland, Tasmania and Victoria of 1.4% for Assisted Reproductive Services ("ARS") and the eastern state market outlook remains subdued. (Note: market volume reflects fresh and cancelled cycles).

Underlying cycle volume in Virtus clinics declined by 1.6% with growth in New South Wales offset by a decline in Victoria and continued weakness in the Queensland market. Virtus continues to experience growth in its "The Fertility Centre" branded clinics with all states meeting growth objectives. However, this growth has been offset by weakness in full service cycles. Growth has been impacted by the following factors:

- Although market growth in NSW has improved in the twelve months to 30 June by 4.5% compared to prior year comparatives (Source: Medicare Statistics for item numbers 13200,13201,13202), as previously disclosed Virtus has not achieved comparable cycle growth. Virtus believes the market growth is attributable to the increased activity of the bulk bill provider in NSW;
- Virtus lost a small amount of market share in Victoria and Queensland in the financial year. In addition the state markets have remained weak with the Victorian market contracting 1.3% and the Queensland market unchanged against prior year comparatives;
- IVFAustralia opened The Fertility Centre ("TFC") a new low cost facility in Wollongong, New South Wales in February. Virtus now has six low cost facilities in Australia.

Specialised diagnostic revenue increased by 14.6% in FY2015, with greater utilisation of cytogenetic and non-invasive pre-natal testing activities. Diagnostic test revenue growth continues to be a focus for the business and Virtus has invested in new gene sequencing technologies to further develop our capability and patient services in our PGD and genetic activities in Melbourne and Brisbane. We recently announced the arrival of the first babies born using our new karyomapping diagnostic technology.

In our day hospitals Virtus achieved revenue growth of 4.3% with non-IVF revenue growth of 8.7% offsetting the weakness in IVF procedure revenue. City West Specialist Day Hospital in Sydney performed particularly well, and several locations improved their non-IVF procedure activity which now accounts for 56% of day hospital revenue.

# PGD

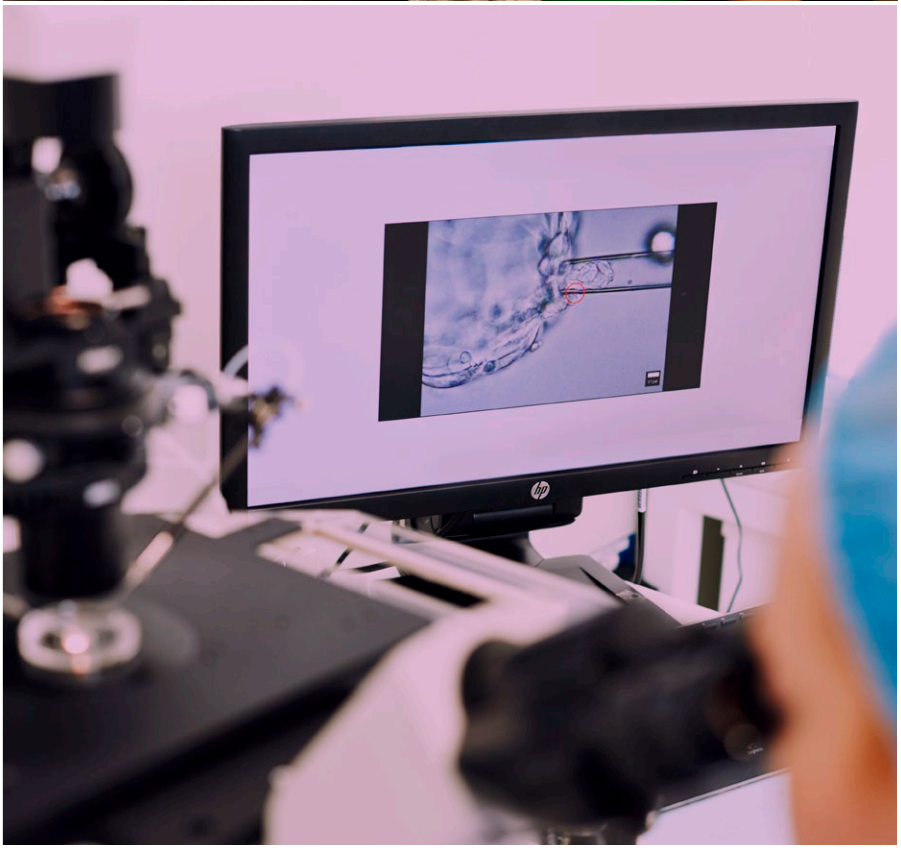
PRE-IMPLANTATION
GENETIC DIAGNOSIS

## CASE STUDY – KARYOMAPPING

Discovering a child has developed a deadly hereditary disease is a devastating experience for parents. Now a new genetic test introduced by Virtus Health, using karyomapping technology, will provide peace of mind to couples seeking to have children where disease-causing genes could be passed on through natural conception.

Karyomapping enables Virtus Health scientists to develop a test for a particular couple and a particular inheritable disease faster than any other pre-implantation genetic diagnosis (PGD) technology available in Australia. Then when transferring the embryo through an IVF cycle, our fertility specialists can select the embryo that does not carry a gene that causes a life threatening condition.

The first Australian couples to use the karyomapping technology delivered healthy babies coincidentally on the same day. One baby will grow up free from the risk of developing breast or ovarian cancer from a mutated BRCA 1 gene, while the other baby will not develop congenital myasthenic syndrome, after it was discovered the parents were carriers of the rare condition.



# OPERATING AND FINANCIAL REVIEW
## CONTINUED

### INTERNATIONAL

Virtus completed the development and commissioning of a new Virtus branded clinic in Singapore. Operating EBITDA loss for the activity in Singapore was $1,905,000 in the financial year. Virtus has contracted three fertility specialists in Singapore and IVF cycles commenced during late February 2015; four non-contracted fertility specialists are also using the facility for some of their ARS activities.

Sims Clinic, acquired in May 2014, enjoyed a strong year with cycle volumes increasing by 11% compared to FY2014; EBITDA margin improved to 21% of revenue after absorbing start-up costs for our new full service Cork clinic; volumes have improved steadily since opening in January 2015.

### OUTLOOK

The long term trend of women over 30 delaying the birth of children is a key factor in each of our geographic markets and the demand for ARS is expected to grow. Although market growth rate has moderated in Australia, Virtus believes that demand for ARS will be supported by a range of social and demographic drivers as well as continued improvements in success rates and the application of specialised diagnostic services.

### CASE STUDY – GROWTH IN SOCIAL EGG FREEZING

An increasing number of women are choosing to freeze their eggs in order to increase their chances of having a family in later life. This relatively new option for women applies Virtus Health's excellence in medical fertility preservation.

Our doctors and scientists have already led the way in preserving the future fertility of cancer patients before they undergo radiotherapy or chemotherapy treatment. The cryopreservation technique used in egg freezing, called vitrification, has been likened to snap freezing peas. IVFAustralia, Melbourne IVF and Queensland Fertility Group have held a number of successful events providing Australian women with the 'facts about egg freezing'.

## CAPITAL EXPENDITURE

Total expenditure on tangible and intangible assets was $12.6 million in FY2015 (FY2014; $8.0 million) including approximately $3.4 million in our new facility in Singapore. We also invested in new fertility clinics in Wollongong, NSW and Cork, Ireland.

## DEBT AND INTEREST EXPENSE

Virtus negotiated a new Syndicate Facility Agreement with the existing group of facility providers and this was completed in October 2014. The total facility available was increased by $60 million to $210 million and the consolidated entity comfortably met the financial covenants as set out in the agreement.

At 30 June 2015, total facilities drawn were $153 million in cash and $3,430,000 in guarantees. Cash balances at the end of June 2015 were $18,371,000.

## OTHER FINANCIAL LIABILITIES ($24.7 MILLION)

The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited hold put options established at the time of acquisition. Consequently in accordance with accounting standards the group is required to recognise a liability for the estimated consideration to acquire the non-controlling interests. This liability has been discounted at the date of acquisition and the corresponding entry is included in the business combinations reserve. The unwinding of the inherent discounting within the liability has resulted in a non-cash interest expense in FY2015 of $960,000 (FY2014: $45,000).

## AMORTISATION OF BORROWING COSTS

Amortisation of borrowing cost expense for FY2015 was $911,000, including a write off of $653,000 in respect of the now retired Syndicate Facility Agreement originally established at the IPO in June 2013.

## TAXATION

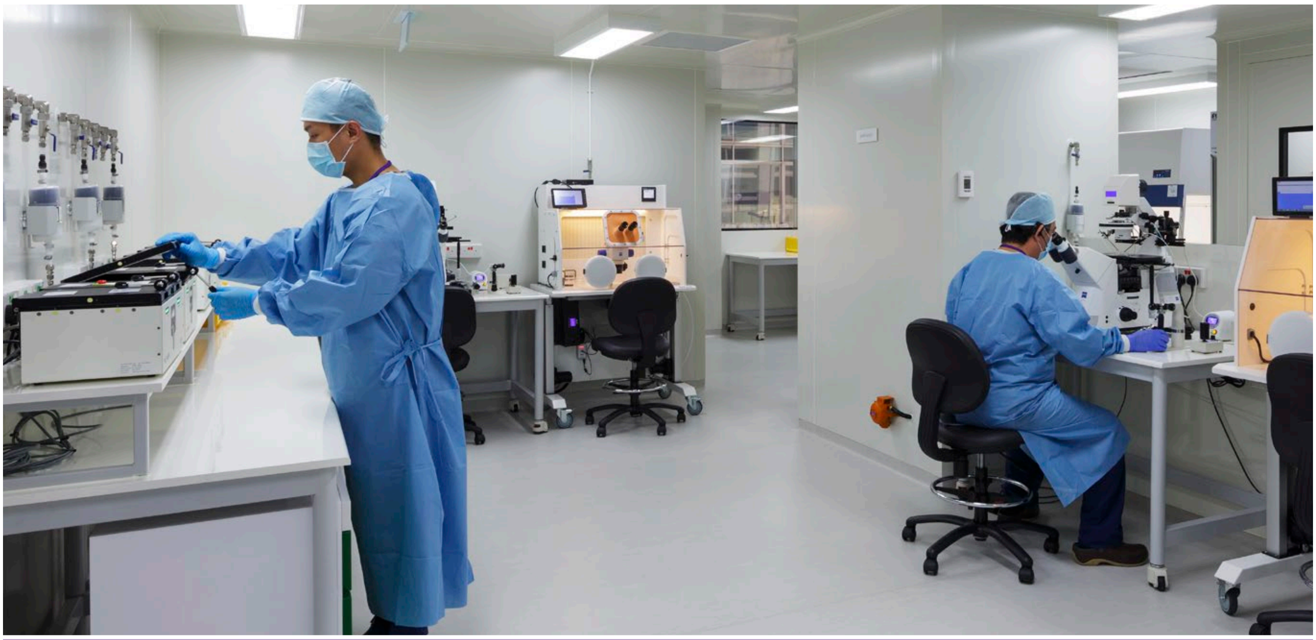
The effective tax rate on operating earnings for FY2015 was 28.3% (FY2014: 29.4%) as a consequence of the true-up of the prior year R&D tax concession and also the lower tax rate applied to the Virtus Ireland activities.

## EARNINGS PER SHARE

Basic earnings per share decreased by 5.0% to 36.86 cents per share (FY2014: 38.80 cents per share). Diluted earnings per share decreased by 5.0% to 36.54 cents per share (FY2014: 38.48 cents per share).

## DIVIDEND

A final dividend of 14.00 cents per share fully franked (October 2014:14.00 cents per share) will be paid on 16 October to shareholders on the register at 2 October 2015.



## CASE STUDY – VIRTUS FERTILITY CENTRE SINGAPORE

Virtus Fertility Centre, Singapore has been a great example of Virtus Health leveraging its impressive expertise in fertility to enter new markets. Virtus Fertility Centre opened in January 2015 as one of the largest dedicated fertility centres in the region providing consultation and monitoring services, with its own theatres and embryo transfer rooms connected to the first ISO-certified 'clean room' embryology laboratory in Singapore ensuring optimal care for developing embryos. This is complemented by a radio frequency identification (RFID) electronic witnessing system – another first for the region – to further enhance patient safety and mitigate risks.

# BOARD OF DIRECTORS

**Peter Macourt Chairman**

BCom.; ACA; GAICD

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.

Peter is currently Chairman of SKY Network Television Limited and a director of Prime Media Limited.

**Sue Channon Group CEO**

Registered Nurse Div1; OR Management Certificate

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.

**Dennis O'Neill Non-executive Director**

BSc. (Hons) Mech. Eng; CPE (ret), FIEA; FAICD; FAIM

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 2013. He is also Advisory Chairman to several unlisted companies and was the Steel Supplier Advocate for the Commonwealth Government until 30 June 2014.

**Lyndon Hale Executive Director**

MBBS; FRACOG; CREI

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.

**Peter Turner Non-executive Director**

BSc.; MBA; GAICD

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 Chairman of NPS MedicineWise and Ashley Services Group Limited.

**Sonia Petering Non-executive Director**

LLB; BCom; FAICD

Sonia is a corporate lawyer who brings extensive experience as a Director. She is currently Chair of the Rural Finance Corporation of Victoria and a Non-Executive Director of Victoria's Transport Accident Commission. Sonia is also a director of TAL, Dia-Ichi Life Australia Pty Limited.

# 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 2015.

## 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
Susan Channon
Dennis O'Neill
Lyndon Hale
Peter Turner
Sonia Petering (appointed on 1 September 2014)
Marcus Darville (resigned on 7 October 2014)

## 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 | |
|---|---|---|
| | **2015 $'000** | **2014 $'000** |
| Interim ordinary dividend for the year ended 30 June 2015 of 13.0 cents (2014: 12.0 cents) per fully paid ordinary share paid in April 2015 | 10,385 | 9,446 |
| Final ordinary dividend for the year ended 30 June 2014 of 14.0 cents per fully paid ordinary share paid in October 2014 | 10,915 | – |
| | **21,300** | **9,446** |

A final dividend of 14.00 cents per share, fully franked, will be paid on 16 October 2015 to the shareholders on the register at 2 October 2015.

## REVIEW OF OPERATIONS

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to $29,434,000 (30 June 2014: $30,885,000).

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

| | Consolidated | |
|---|---|---|
| | **2015 $'000** | **2014 $'000** |
| Segment EBITDA | 70,977 | 67,881 |
| Share-based payment expense | (945) | (456) |
| Net gain on acquisition of associate | 300 | – |
| Other non-trading expenses | (8,977) | (8,021) |
| EBITDA (reported) | 61,355 | 59,404 |
| Depreciation and amortisation expense | (9,994) | (8,192) |
| EBIT | 51,361 | 51,212 |
| Interest revenue | 220 | 349 |
| Interest expense | (7,235) | (7,211) |
| Interest on other financial liability – non-cash interest | (960) | (45) |
| Amortisation of bank facility fee | (911) | (463) |
| Profit before income tax from continuing activities | 42,475 | 43,842 |

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

In September 2014, Virtus Health renegotiated and extended its bank facilities to September 2019 and added a further $60 million debt capacity to support its growth and acquisition strategies.

Virtus Health acquired 80% of the issued share capital and units of IVF Sunshine Coast Pty Ltd on 31 October 2014; 70% of the issued share capital and units of Tas IVF Pty Ltd on 5 December 2014; and formed a new company, Human Assisted Reproduction Ireland on 31 December 2014 to acquire the IVF business and assets from The Governors and Guardians of the Hospital For The Relief Of Poor Lying In Women, Dublin (commonly known as the Rotunda Hospital). For more information please refer to note 40.

Virtus Health also established a clinic in Singapore, Virtus Fertility Centre Singapore Limited; the clinic commenced operations in December 2014.

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 2015 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 demand from the Australian market. 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 ('MBS') and the Extended Medicare Safety Net ('EMSN'). We anticipate that each of these programs will be reviewed during 2015.

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 may face 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.

# DIRECTORS' REPORT CONTINUED

## 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); Director of Prime Media Limited

**Former directorships (last 3 years):** None

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

**Interests in shares:** 18,485 ordinary shares held directly

**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:** 298,972 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 2013. 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

**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; GAICD

**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 Chairman of NPS MedicineWise.

**Other current directorships:** Chairman, Ashley Services Group Ltd

**Former directorships (last 3 years):** CSL Limited

**Special responsibilities:** Chair of the Risk Committee and the Nomination and Remuneration Committee and member of the Audit Committee.

**Interests in shares:** 50,000 ordinary shares

**Interests in options:** None

**Name:** Sonia Petering

**Title:** Non-Executive Director

**Qualifications:** LLB; BCom; FAICD

**Experience and expertise:**
Sonia is a corporate lawyer who brings extensive experience as a Director. She is currently Chair of the Rural Finance Corporation of Victoria and a Non-Executive Director of Victoria's Transport Accident Commission. Sonia is also a director of TAL, Dia-Ichi Life Australia Pty Limited.

**Other current directorships:** None

**Former directorships (last 3 years):** None

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

**Interests in shares:** 2,500 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 2015, and the number of meetings attended by each director were:

| | Full Board | | Nomination and Remuneration Committee | |
|---|---|---|---|---|
| | Attended | Held | Attended | Held |
| Peter Macourt – Chairman | 9 | 9 | 2 | 2 |
| Marcus Darville | – | 1 | – | 1 |
| Susan Channon | 8 | 9 | – | – |
| Dennis O'Neill | 9 | 9 | – | – |
| Lyndon Hale | 7 | 9 | – | – |
| Peter Turner | 9 | 9 | 2 | 2 |
| Sonia Petering | 8 | 8 | 1 | 1 |

| | Audit Committee | | Risk Committee | |
|---|---|---|---|---|
| | Attended | Held | Attended | Held |
| Peter Macourt – Chairman | 4 | 4 | – | – |
| Marcus Darville | 1 | 1 | – | – |
| Susan Channon | – | – | 3 | 3 |
| Dennis O'Neill | 4 | 4 | – | – |
| Peter Turner | 4 | 4 | 3 | 3 |
| Sonia Petering | – | – | 3 | 3 |

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

## 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

### 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:

# DIRECTORS' REPORT CONTINUED

- 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, CEO selection and appointment practice;
- 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 major 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 equity 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 approved by the shareholders. This amount has been fixed at $500,000 with effect from 17 May 2013. Aggregate annual directors' fees paid to directors in the financial year ending 30 June 2015 were $420,331; details of the fees payable to each director are set out in the section B. A shareholder resolution will be submitted at the Annual General Meeting recommending an increase in the total amount payable to all non-executive directors for their services from $500,000 to $600,000.

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;
- long-term performance incentives; 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 EBIT performance at group and territory level, volume growth in territory, cost management targets and individual management and business development objectives.

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 – 50%
- Glenn Powers – 55%
- Andrew Othen – 33%
- Steve Zappia – 33%
- Nadia Stankovic – 58%
- Anthony Walsh – no target was set as Mr. Walsh is incentivised to enhance shareholder value by way of his minority shareholder interest in the business performance of Sims IVF.

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

- EBIT target achievements;
- Volume growth achievement;
- Cost management achievement; and
- Acquisitions.

Each of the targets above are measurable in financial terms. 40%-60% of the annual STI is payable in relation to the achievement of the financial year EBIT targets which are established by the Nomination and Remuneration Committee on an annual basis. Other operational KPIs account for the remainder of the STI.

Financial and non-financial KPIs are reviewed and amended annually by the Nomination and Remuneration Committee to ensure STI payments are aligned with the short term objectives of the business.

### Long-term benefits

The long-term benefits ('LTB') include long service leave accruals and share-based incentives. Performance rights 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 return relative to the entire market and the increase compared to the consolidated entity's industry peers. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2015.

Performance rights 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 performance rights 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 performance right will convert to a number of shares based on the terms of issue of the performance rights. Performance rights 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 performance rights which is 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.

### Use of remuneration consultants

The Nomination and Remuneration Committee engaged KPMG to provide recommendations on the following matters:

- Long term incentive performance hurdles;
- Executive remuneration benchmarking; and
- Non-executive director fees benchmarking

The total consideration payable to KPMG for the advice provided was $24,000 excluding GST.

The scope of the report and all discussions with KPMG were undertaken by the Chairman of the Nomination and Remuneration Committee, Peter Turner, in consultation with the independent directors, Peter Macourt, Chairman, and Sonia Petering who are both members of the Nomination and Remuneration Committee. No discussions were held between KPMG and the CEO, CFO or other key management personnel. Accordingly the Board is satisfied that the recommendations made by KPMG are free from undue influence by any member of the key management personnel to whom the recommendations relate.

The Chairman of the Nomination and Remuneration Committee is also satisfied that the recommendation relating to non-executive director fees, including the fees for the Chairman, has not been subject to any undue influence by the Chairman or other independent directors.

### 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.

### 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.

### 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 or performance rights – senior executives and employees

It is expected that options or performance rights 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 or

# DIRECTORS' REPORT CONTINUED

performance rights 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.

### Senior executives – 2013 grant

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

- The hurdle for 50% of the options is based on a share price hurdle which measures the growth in the company's share price over a three year performance period. The number of options that vest will depend on the share price growth ('SPG') of shares over the performance period. The SPG is determined by subtracting the share price at the beginning of the performance period from the share price at the end of the performance period, and dividing that figure by the share price at the beginning of the performance period. No options will vest at growth below 15%. 50% will vest at 15% growth and vesting thereafter will be determined on a straight-line scale with 100% vesting at 50% growth.
- The hurdle for the remaining 50% of the options is based on the company's total shareholder return ('TSR') relative to a peer group of companies in both the S&P/ASX 300 Index and the S&P/ASX 300 Healthcare Index (weighted 50% each) over the three year performance period. No options will vest if the TSR performance is less than the 50th percentile. 50% of the options will vest at median (i.e. the 50th percentile) TSR performance and vesting thereafter will be determined on a straight-line scale with 100% vesting if the TSR performance is greater than or equal to the 75th percentile. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.

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

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

### Senior executives – 2014 grant

On 10 November 2014, performance rights were granted to the following members of the executive management team:

Sue Channon;

Glenn Powers;

Andrew Othen;

Nadia Stankovic;

Steve Zappia; and

Anthony Walsh.

The main features of the performance rights are set out below. The performance rights vest subject to the following performance hurdles:

- The performance hurdles for the Plan are relative total shareholder return (TSR) and earnings per share (EPS) growth. Each hurdle applies to 50% of the grant. TSR is measured on the Company's TSR relative to a peer group of companies in both the S&P/ASX 200 Index and the S&P/ASX 200 Healthcare Index (weighted 50% each) over the three year performance period. TSR is a measure of the return on investment in a company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period.
- The percentage of the TSR Component which may vest is based on a sliding scale as follows:
  - 0% if the TSR does not reach the 50th percentile of the TSRs of the S&P/ASX 200 index and the S&P/ASX 200 Healthcare index (weighted 50% each)
  - 50% if the TSR reaches the 50th percentile of the TSRs of the S&P/ASX 200 index and the S&P/ASX 200 Healthcare index (weighted 50% each)
  - Progressive rate (straight-line) vesting from 50% to 100% if the TSR exceeds the 50th percentile of the TSRs of the S&P/ASX 200 index and the S&P/ASX 200 Healthcare index (weighted 50% each) but does not reach the 75th percentile
  - 100% if the TSR reaches or exceeds the 75th percentile of the TSRs of the S&P/ASX 200 index and the S&P/ASX 200 Healthcare index (weighted 50% each)
- The percentage of the EPS growth component which may vest is based on a sliding scale as follows:
  - 0% if the compound average growth rate ("CAGR") does not reach 7.5%;
  - 50% if the CAGR reaches 7.5%;
  - Progressive rate (straight-line) vesting from 50% to 100% if the CAGR exceeds 7.5% but does not reach 10%; and
  - 100% if the CAGR reaches or exceeds 10%

Calculations of the Company's TSR and EPS will be determined at the end of the three year vesting period and approved by the Board.

### 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 2015.

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 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 such an 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 31st December 2016;

Three fertility specialists currently meet the performance criteria after one year of the qualifying period and the base price at date of grant is $8.69 with a base value of the incentive value of $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 commenced on 1 January 2015 for all eligible Fertility Specialists who did not achieve 400 cycles in calendar year 2014. The base price at date of grant was the average daily closing share price for the month ending 31 December 2014.
- The high performer share incentive is administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

The second incentive period commenced on 1 January 2015 and will run for a three year period ending 31 December 2017 and the base price at the date of grant is $7.42 with a base incentive value of $500,000.

### Ranking of shares

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

### Voting and dividend rights

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

### Approval

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

### Issue or acquisition of shares

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

### No transfer of options

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

# DIRECTORS' REPORT CONTINUED

### Lapse of options

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

## B. Details of remuneration

### Amounts of remuneration

Details of the remuneration of 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
- Nadia Stankovic – Managing Director, New South Wales
- Andrew Othen – Managing Director, Victoria
- Steve Zappia – Managing Director, Queensland
- Anthony Walsh – Managing Director, Ireland
- William Watkins – Medical Director, Tasmania
- Peter Illingworth – Medical Director, New South Wales
- David Molloy – Medical Director, Queensland

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| **2015** | **Cash salary and fees $** | **Bonus $** | **Non-monetary and termination $** | **Super-annuation $** | **Employee leave $** | **Equity-settled $** | **Total $** |
| *Non-Executive Directors:* | | | | | | | |
| P Macourt | 132,991 | – | – | 12,634 | – | – | 145,625 |
| D O'Neill | 84,246 | – | – | 8,003 | – | – | 92,249 |
| P Turner | 100,228 | – | – | 9,521 | – | – | 109,749 |
| S Petering | 66,400 | – | – | 6,308 | – | – | 72,708 |
| *Executive Directors:* | | | | | | | |
| S Channon | 470,857 | 85,000 | – | 36,966 | 11,078 | 147,593 | 751,494 |
| L Hale | 75,000 | – | – | – | – | – | 75,000 |
| *Other Key Management Personnel*:* | | | | | | | |
| G Powers | 331,622 | 60,500 | – | 37,521 | 6,947 | 89,520 | 526,110 |
| N Stankovic | 254,800 | 46,617 | – | 27,770 | 4,576 | 13,467 | 347,230 |
| A Othen | 290,638 | 28,189 | – | 30,199 | 9,050 | 16,699 | 374,775 |
| S Zappia | 257,013 | 27,337 | – | 26,590 | 966 | 13,750 | 325,656 |
| A Walsh | 158,026 | – | – | – | – | 5,211 | 163,237 |
| P Illingworth | 177,290 | – | – | – | – | – | 177,290 |
| D Molloy | 80,126 | – | – | – | – | – | 80,126 |
| | 2,479,237 | 247,643 | – | 195,512 | 32,617 | 286,240 | 3,241,249 |

* William Watkins did not receive any remuneration in his capacity as a key management person in the financial year ending 30 June 2015

Marcus Darville agreed to provide his services to Virtus for no salary or fee for the period of his directorship up until his date of resignation.

| 2014 | Short-term benefits<br>Cash salary and fees<br>$ | Short-term benefits<br>Bonus<br>$ | Short-term benefits<br>Non-monetary<br>$ | Post-employment benefits<br>Super-annuation<br>$ | Long-term benefits<br>Employee leave<br>$ | Share-based payments<br>Equity-settled<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| *Non-Executive Directors:* | | | | | | | |
| 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 |
| *Executive Directors:* | | | | | | | |
| S Channon | 440,008 | 78,275 | – | 24,992 | 26,146 | 110,149 | 679,570 |
| L Hale | 75,000 | – | – | – | – | – | 75,000 |
| *Other Key Management Personnel:* | | | | | | | |
| 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.

The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale, David Molloy, Peter Illingworth and William Watkins. Details are disclosed in note 38 to the financial report.

# DIRECTORS' REPORT CONTINUED

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

| | Fixed remuneration | | At risk – STI | | At risk – LTI | |
|---|---|---|---|---|---|---|
| **Name** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| *Non-Executive Directors:* | | | | | | |
| P Macourt | 100% | 100% | –% | -% | –% | –% |
| D O'Neill | 100% | 100% | –% | –% | –% | –% |
| P Turner | 100% | 100% | –% | –% | –% | –% |
| S Petering | 100% | –% | –% | –% | –% | –% |
| *Executive Directors:* | | | | | | |
| S Channon | 69% | 72% | 11% | 12% | 20% | 16% |
| L Hale | 100% | 100% | –% | –% | –% | –% |
| *Other Key Management Personnel:* | | | | | | |
| G Powers | 72% | 75% | 11% | 11% | 17% | 14% |
| B Ayres | –% | 100% | –% | –% | –% | –% |
| A Othen | 88% | 89% | 8% | 11% | 4% | –% |
| N Stankovic | 83% | 100% | 13% | –% | 4% | –% |
| S Zappia | 87% | 93% | 9% | 7% | 4% | –% |
| A Walsh | 97% | –% | –% | –% | 3% | –% |
| P Illingworth | 100% | 100% | –% | –% | –% | –% |
| D Molloy | 100% | 100% | –% | –% | –% | –% |

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

| | Cash bonus paid/payable | | Cash bonus forfeited | |
|---|---|---|---|---|
| **Name** | **2015** | **2014** | **2015** | **2014** |
| *Executive Directors:* | | | | |
| S Channon | 50% | 51% | 50% | 49% |
| *Other Key Management Personnel:* | | | | |
| G Powers | 55% | 51% | 45% | 49% |
| A Othen | 33% | 49% | 67% | 51% |
| S Zappia | 33% | 25% | 67% | 75% |
| N Stankovic | 58% | –% | 42% | –% |

## 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**:
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. 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**:
The 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**:
The 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, Nadia Stankovic and Anthony Walsh 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, David Molloy and William Watkins 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 2015.

### 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 year 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 |
| 10 November 2014 | 10 November 2017 | 10 November 2024 | $0.00 | $1.24 |

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 2015 are set out below:

| Name | Number of options granted during the year 2015 | Number of options granted during the year 2014 | Number of options vested during the year 2015 | Number of options vested during the year 2014 |
|---|---|---|---|---|
| Susan Channon | 36,472 | – | – | – |
| Glenn Powers | 25,888 | – | – | – |
| Andrew Othen | 16,266 | 135,397 | – | 135,397 |
| Nadia Stankovic | 13,118 | – | – | – |
| Steve Zappia | 13,393 | – | – | – |
| Anthony Walsh | 5,076 | – | – | – |
| Peter Illingworth | – | 50,000 | – | 50,000 |

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 2015 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 $ |
|---|---|---|---|
| Susan Channon | 251,657 | – | – |
| Glenn Powers | 178,627 | – | – |
| Andrew Othen | 112,235 | – | – |
| Nadia Stankovic | 90,514 | – | – |
| Steve Zappia | 92,412 | – | – |
| Anthony Walsh | 35,024 | – | – |

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 2015 are summarised below:

| | 2015 $'000 | 2014 $'000 | 2013 $'000 | 2012 $'000 | 2011 $'000 |
|---|---|---|---|---|---|
| Sales revenue | 233,696 | 201,249 | 186,581 | 165,119 | 127,197 |
| EBITDA* | 61,355 | 59,404 | 43,429 | 48,708 | 40,510 |
| EBIT | 51,361 | 51,212 | 34,684 | 39,736 | 32,233 |
| Profit after income tax | 30,441 | 30,957 | 10,104 | 19,660 | 15,337 |

* EBITDA 2013 is stated before deduction of initial public offering costs.

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

| | 2015 | 2014 | 2013 | 2012* | 2011* |
|---|---|---|---|---|---|
| Share price at financial year end ($) | 5.37 | 8.16 | 6.45 | – | – |
| Total dividends declared (cents per share) | 27.00 | 12.00 | 133.50 | – | – |
| Basic earnings per share (cents per share) | 36.05 | 38.80 | 17.78 | 36.73 | – |
| Diluted earnings per share (cents per share) | 35.75 | 38.48 | 16.78 | 34.22 | – |

* Share price is not applicable for the years 2011 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 |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| 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 |
| Sonia Petering | – | – | 2,500 | – | 2,500 |
| | 2,559,613 | – | 2,500 | – | 2,562,113 |

# DIRECTORS' REPORT CONTINUED

### 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 |
|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | |
| Susan Channon | 262,500 | 36,472 | – | – | 298,972 |
| Andrew Othen | 38,000 | 16,266 | – | – | 54,266 |
| Glenn Powers | 150,000 | 25,888 | – | – | 175,888 |
| Peter Illingworth | 50,000 | – | – | – | 50,000 |
| Nadia Stankovic | – | 13,118 | – | – | 13,118 |
| Steve Zappia | – | 13,393 | – | – | 13,393 |
| Anthony Walsh | – | 5,076 | – | – | 5,076 |
| | 500,500 | 110,213 | – | – | 610,713 |

***This concludes the remuneration report, which has been audited.***

### Shares under option

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

| Grant date | Expiry date | Exercise 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 | 263,005 |
| 20 January 2014** | 20 January 2024 | $0.00 | 45,136 |
| 21 January 2014** | 21 January 2024 | $8.49 | – |
| 21 January 2014** | 21 January 2024 | $0.00 | 96,238 |
| 01 January 2014** | 01 January 2024 | $8.69 | 29,073 |
| 03 October 2014** | 03 October 2024 | $8.57 | 117,251 |
| 10 November 2014 | 10 November 2024 | $0.00 | 85,990 |
| 13 May 2015** | 13 May 2025 | $7.16 | 7,372 |
| 13 May 2015** | 13 May 2025 | $7.53 | 912 |
| 13 May 2015** | 13 May 2025 | $7.94 | 794 |
| 13 May 2015** | 13 May 2025 | $7.96 | 343 |
| 13 May 2015** | 13 May 2025 | $8.01 | 262 |
| | | | 1,058,876 |

* 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.

** 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 175,000 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 2015 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 35 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 35 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 partners of PricewaterhouseCoopers

There are no officers of the company who are former 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 follows this report.

### 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

**Peter Macourt**
Chairman

25 August 2015
Sydney

# AUDITOR'S INDEPENDENCE DECLARATION

pwc

## Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Eddie Wilkie

Eddie Wilkie
Partner
PricewaterhouseCoopers

Sydney
25 August 2015

***PricewaterhouseCoopers, ABN 52 780 433 757***
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# FINANCIAL REPORT

## GENERAL INFORMATION

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

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

Level 3
176 Pacific Highway
Greenwich NSW 2065

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 August 2015. The directors have the power to amend and reissue the financial statements.

## CONTENTS

# STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 30 June 2015

| | Note | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|---|
| **Revenue** | 4 | 233,696 | 201,249 |
| Share of profits of associates accounted for using the equity method | 5 | 563 | 189 |
| Other income | 6 | 1,067 | 302 |
| **Expenses** | | | |
| Fertility specialists, consumables and associated costs | | (63,718) | (53,854) |
| Employee benefits expense | | (75,996) | (61,395) |
| Depreciation and amortisation expense | 7 | (9,994) | (8,192) |
| Occupancy expense | | (13,657) | (11,376) |
| Advertising and marketing | | (3,683) | (2,797) |
| Practice equipment expenses | | (1,906) | (1,355) |
| Professional and consulting fees | | (2,603) | (1,542) |
| Other expenses | | (12,188) | (9,668) |
| Finance costs | 7 | (9,106) | (7,719) |
| **Profit before income tax expense** | | 42,475 | 43,842 |
| Income tax expense | 8 | (12,034) | (12,885) |
| **Profit after income tax expense for the year** | | 30,441 | 30,957 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | 28 | (380) | (96) |
| Foreign currency translation | 28 | 125 | (400) |
| Other comprehensive income for the year, net of tax | | (255) | (496) |
| **Total comprehensive income for the year** | | 30,186 | 30,461 |
| Profit for the year is attributable to: | | | |
| Non-controlling interest | | 1,007 | 72 |
| Owners of Virtus Health Limited | 29 | 29,434 | 30,885 |
| | | 30,441 | 30,957 |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | 1,007 | 72 |
| Owners of Virtus Health Limited | | 29,179 | 30,389 |
| | | 30,186 | 30,461 |

| | | Cents | Cents |
|---|---|---|---|
| Basic earnings per share | 46 | 36.86 | 38.80 |
| Diluted earnings per share | 46 | 36.54 | 38.48 |

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

# STATEMENT OF FINANCIAL POSITION
## as at 30 June 2015

| | | Consolidated | |
|---|---|---|---|
| | Note | 2015 $'000 | 2014 $'000 |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 18,371 | 21,498 |
| Trade and other receivables | 10 | 13,647 | 12,478 |
| Inventories | 11 | 278 | 166 |
| Other | 12 | 1,508 | 1,371 |
| Total current assets | | 33,804 | 35,513 |
| **Non-current assets** | | | |
| Investments accounted for using the equity method | 13 | 1,489 | 1,489 |
| Property, plant and equipment | 14 | 30,822 | 28,207 |
| Intangibles | 15 | 390,763 | 356,077 |
| Deferred tax | 16 | 8,064 | 8,154 |
| Other | 17 | 304 | 341 |
| Total non-current assets | | 431,442 | 394,268 |
| **Total assets** | | 465,246 | 429,781 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 23,171 | 23,516 |
| Borrowings | 19 | 50 | 62 |
| Income tax | 20 | 4,256 | 4,507 |
| Provisions | 21 | 2,908 | 2,418 |
| Other | 22 | 5,390 | 3,634 |
| Total current liabilities | | 35,775 | 34,137 |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 152,246 | 139,416 |
| Derivative financial instruments | 24 | 676 | 137 |
| Provisions | 25 | 5,523 | 4,663 |
| Other financial liabilities | 26 | 24,705 | 11,802 |
| Total non-current liabilities | | 183,150 | 156,018 |
| **Total liabilities** | | 218,925 | 190,155 |
| **Net assets** | | **246,321** | **239,626** |
| **Equity** | | | |
| Issued capital | 27 | 238,429 | 237,135 |
| Reserves | 28 | (12,989) | (1,610) |
| Retained profits/(accumulated losses) | 29 | 1,995 | (6,139) |
| Equity attributable to the owners of Virtus Health Limited | | 227,435 | 229,386 |
| Non-controlling interest | 30 | 18,886 | 10,240 |
| **Total equity** | | **246,321** | **239,626** |

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 2015

| 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 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity, net of transaction costs (note 27) | 1,057 | – | – | – | 1,057 |
| 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 |
| Share-based payments | – | 456 | – | – | 456 |
| Dividends paid (note 31) | – | – | (9,446) | – | (9,446) |
| Balance at 30 June 2014 | 237,135 | (1,610) | (6,139) | 10,240 | 239,626 |

| Consolidated | Issued capital $'000 | Reserves $'000 | Retained profits $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2014 | 237,135 | (1,610) | (6,139) | 10,240 | 239,626 |
| Profit after income tax expense for the year | – | – | 29,434 | 1,007 | 30,441 |
| Other comprehensive income for the year, net of tax | – | (255) | – | – | (255) |
| Total comprehensive income for the year | – | (255) | 29,434 | 1,007 | 30,186 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity, net of transaction costs (note 27) | 1,294 | – | – | – | 1,294 |
| Non-controlling interest on acquisition of subsidiary | – | – | – | 6,454 | 6,454 |
| Issue of shares by subsidiary to non-controlling interest | – | – | – | 1,787 | 1,787 |
| Dividends payable by subsidiary to non-controlling interest | – | – | – | (465) | (465) |
| Non-controlling interest share of reserves | – | – | – | (137) | (137) |
| Put option business combination reserve | – | (12,069) | – | – | (12,069) |
| Share-based payments | – | 945 | – | – | 945 |
| Dividends paid (note 31) | – | – | (21,300) | – | (21,300) |
| Balance at 30 June 2015 | 238,429 | (12,989) | 1,995 | 18,886 | 246,321 |

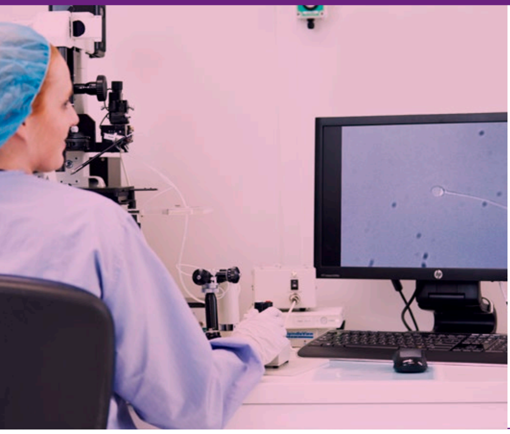
The above statement of changes in equity should be read in conjunction with the accompanying notes.

# STATEMENT OF CASH FLOWS

## for the year ended 30 June 2015

| | Note | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 233,070 | 201,699 |
| Payments to suppliers (inclusive of GST) | | (173,366) | (137,689) |
| | | 59,704 | 64,010 |
| Other revenue | | 367 | 302 |
| Interest and other finance costs paid | | (7,228) | (6,694) |
| Income taxes paid | | (12,255) | (5,077) |
| Net cash from operating activities | 45 | 40,588 | 52,541 |
| **Cash flows from investing activities** | | | |
| Payments for acquisition of subsidiaries and businesses, net of cash acquired | | (25,180) | (22,362) |
| Payments for property, plant and equipment and intangibles | | (12,336) | (8,007) |
| Proceeds from disposal of property, plant and equipment | | 47 | – |
| Interest received | | 220 | 349 |
| Associate distributions received | | 250 | 50 |
| Net cash used in investing activities | | (36,999) | (29,970) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 994 | 1,057 |
| Proceeds from issue of shares to non-controlling interest | | 1,787 | – |
| Payment of dividends | | (21,300) | (9,446) |
| Dividend paid to non-controlling interest in subsidiaries | | (150) | – |
| Proceeds from borrowings | | 13,000 | 8,000 |
| Repayment of borrowings | | – | (13,000) |
| Payment of fees in relation to refinancing | | (1,038) | – |
| Payment for finance lease facility | | (62) | (138) |
| Net cash used in financing activities | | (6,769) | (13,527) |
| Net increase/(decrease) in cash and cash equivalents | | (3,180) | 9,044 |
| Cash and cash equivalents at the beginning of the financial year | | 21,498 | 12,485 |
| Effects of exchange rate changes on cash and cash equivalents | | 53 | (31) |
| Cash and cash equivalents at the end of the financial year | 9 | 18,371 | 21,498 |

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



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2015

### 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.

#### 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 39.

#### 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 2015 and the results of all subsidiaries for the year then ended. Virtus Health Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has 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 rates at the dates of the transactions, 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 the 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 be applied 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 at 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 classified as current when: it is either 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 classified as current when: it is either 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.

### 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, the 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, the 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 the 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 six monthly 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 3 to 5 years.

#### Brand names

Brand names are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested every six months 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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 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 corporate 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 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.

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.

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 interests. 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.

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 at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of 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 the 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 acquiree.

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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2015

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 2015. 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

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' model to recognise an allowance. The consolidated entity will adopt this standard from 1 July 2018 which is not expected to have a significant impact.

#### IFRS 15 Revenue from Contracts with Customers

This standard is currently applicable to annual reporting periods beginning on or after 1 January 2018. 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 consolidated entity expects to adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed.

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the consolidated entity as their amendments provide either clarification of existing accounting treatment or editorial amendments.

## 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.

### Goodwill and other indefinite life intangible assets

The consolidated entity tests six monthly, 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
**for the year ended 30 June 2015**

## 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 five operating segments being New South Wales, Queensland, Victoria, Tasmania 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 was 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. Corporate costs have been excluded from the segment EBITDA during 2015 and the comparatives have been adjusted accordingly.

## Operating segment information

| Consolidated – 2015 | Healthcare services Australia $'000 | Healthcare services International $'000 | Intersegment eliminations/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales to external customers | 205,231 | 27,186 | – | 232,417 |
| Intersegment sales | 2,420 | – | (2,420) | – |
| Total sales revenue | 207,651 | 27,186 | (2,420) | 232,417 |
| Other revenue | 1,059 | – | – | 1,059 |
| Interest revenue | 201 | 1 | 18 | 220 |
| **Total revenue** | 208,911 | 27,187 | (2,402) | 233,696 |
| | | | | |
| **Segment EBITDA** | 68,575 | 2,402 | – | 70,977 |
| Share based payment expense | | | | (945) |
| Corporate costs | | | | (8,007) |
| Foreign exchange gain | | | | 176 |
| Transaction costs | | | | (1,146) |
| Net gain on acquisition of associate | | | | 300 |
| Depreciation and amortisation expense | | | | (9,994) |
| Interest revenue | | | | 220 |
| Interest expense | | | | (7,235) |
| Interest on other financial liability – non-cash interest | | | | (960) |
| Amortisation of bank facility fee | | | | (911) |
| **Profit before income tax expense** | | | | 42,475 |
| Income tax expense | | | | (12,034) |
| **Profit after income tax expense** | | | | 30,441 |
| | | | | |
| *Total assets includes:* | | | | |
| Investments in associates | 1,489 | – | – | 1,489 |
| Acquisition of non-current assets | 28,791 | 15,264 | 3,593 | 47,648 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 3. OPERATING SEGMENTS (continued)

| Consolidated – 2014 | Healthcare services Australia $'000 | Healthcare services International $'000 | Intersegment eliminations/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|
| **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** | 67,290 | 591 | – | 67,881 |
| Share based payment expense | | | | (456) |
| Corporate costs | | | | (6,742) |
| Foreign exchange loss | | | | (311) |
| Transaction costs | | | | (968) |
| Depreciation and amortisation expense | | | | (8,192) |
| Interest revenue | | | | 349 |
| Interest expense | | | | (7,211) |
| Interest on other financial liability – non-cash interest | | | | (45) |
| Amortisation of bank facility fee | | | | (463) |
| **Profit before income tax expense** | | | | 43,842 |
| Income tax expense | | | | (12,885) |
| **Profit after income tax expense** | | | | 30,957 |
| | | | | |
| *Total assets includes:* | | | | |
| Investments in associates | 1,489 | – | – | 1,489 |
| Acquisition of non-current assets | 5,723 | 33,000 | 2,284 | 41,007 |

## NOTE 4. REVENUE

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| *Sales revenue* | | |
| Rendering of services | 232,417 | 200,019 |
| *Other revenue* | | |
| Interest | 220 | 349 |
| Rent | 1,059 | 881 |
| | 1,279 | 1,230 |
| Revenue | 233,696 | 201,249 |

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

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Share of profits – associates | 563 | 189 |

## NOTE 6. OTHER INCOME

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Other income | 1,067 | 302 |

## NOTE 7. EXPENSES

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Profit before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Leasehold improvements | 3,471 | 3,239 |
| Plant and equipment under lease | 48 | – |
| Furniture and fittings | 289 | 111 |
| Office equipment | 1,624 | 290 |
| Medical equipment | 2,541 | 2,723 |
| Total depreciation | 7,973 | 6,363 |
| *Amortisation* | | |
| Software | 561 | 911 |
| Brand names | 1,460 | 918 |
| Total amortisation | 2,021 | 1,829 |
| Total depreciation and amortisation | 9,994 | 8,192 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 7,235 | 7,211 |
| Interest on other financial liability – non-cash interest | 960 | 45 |
| Amortisation of bank facility fees | 911 | 463 |
| Finance costs expensed | 9,106 | 7,719 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 10,289 | 8,557 |
| *Superannuation expense* | | |
| Defined contribution superannuation expense | 4,992 | 4,094 |
| *Research costs* | | |
| Research costs | 3,544 | 3,441 |
| *Share-based payments expense* | | |
| Share-based payments expense – fertility specialists | 642 | 283 |
| Share-based payments expense – employee benefits | 303 | 173 |
| Total share-based payments expense | 945 | 456 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## for the year ended 30 June 2015

## NOTE 8. INCOME TAX EXPENSE

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 12,675 | 10,947 |
| Deferred tax – origination and reversal of temporary differences | (45) | 2,308 |
| Adjustment recognised for prior periods | (596) | (370) |
| Aggregate income tax expense | 12,034 | 12,885 |
| Deferred tax included in income tax expense comprises: | | |
| Decrease/(increase) in deferred tax assets (note 16) | (45) | 2,308 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 42,475 | 43,842 |
| Tax at the statutory tax rate of 30% | 12,743 | 13,153 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Share-based payments | 284 | 137 |
| Research and development | (963) | (434) |
| Acquisition transaction costs | 344 | 256 |
| Other | 146 | 32 |
| Tax losses not recognised | 393 | 92 |
| | 12,947 | 13,236 |
| Difference in overseas tax rates | (317) | 19 |
| Adjustment recognised for prior periods | (596) | (370) |
| Income tax expense | 12,034 | 12,885 |

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| *Amounts credited directly to equity* | | |
| Deferred tax assets (note 16) | (163) | (4,138) |
| *Tax losses not recognised* | | |
| Unused tax losses for which no deferred tax asset has been recognised | 2,806 | 526 |
| Potential tax benefit at 17% | 477 | 89 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can be utilised in the future.

## NOTE 9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Cash at bank and on hand | 18,371 | 21,498 |

## NOTE 10. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Trade receivables | 12,807 | 11,748 |
| Less: Provision for impairment of receivables | (1,535) | (1,104) |
| | 11,272 | 10,644 |
| Other receivables | 2,375 | 1,834 |
| | 13,647 | 12,478 |

### Impairment of receivables

The consolidated entity has recognised a loss of $775,000 (2014: $355,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2015.

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

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| 3 to 6 months overdue | 470 | 461 |
| Over 6 months overdue | 1,065 | 643 |
| | 1,535 | 1,104 |

The nominal value of the impaired receivables is $2,004,000 (2014: $1,565,000).

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

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Opening balance | 1,104 | 1,229 |
| Additional provisions recognised | 835 | 510 |
| Additions through business combinations | 25 | 192 |
| Receivables written off during the year as uncollectable | (369) | (672) |
| Unused amounts reversed | (60) | (155) |
| Closing balance | 1,535 | 1,104 |

### Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $2,778,000 as at 30 June 2015 ($1,537,000 as at 30 June 2014).

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 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| 1 to 3 months overdue | 2,778 | 1,537 |

No collateral is held in relation to the above receivables.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 11. CURRENT ASSETS – INVENTORIES

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Stock on hand – at cost | 278 | 166 |

## NOTE 12. CURRENT ASSETS – OTHER

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Prepayments | 1,508 | 1,371 |

## NOTE 13. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Investment in associates | 1,489 | 1,489 |

Refer to note 42 for further information on interests in associates.

## NOTE 14. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Leasehold improvements – at cost | 33,666 | 28,732 |
| Less: Accumulated depreciation | (19,252) | (14,125) |
| | 14,414 | 14,607 |
| Plant and equipment under lease – at cost | 2,689 | 1,990 |
| Less: Accumulated depreciation | (2,475) | (1,990) |
| | 214 | – |
| Furniture and fittings – at cost | 2,182 | 1,218 |
| Less: Accumulated depreciation | (830) | (494) |
| | 1,352 | 724 |
| Office equipment – at cost | 10,412 | 3,460 |
| Less: Accumulated depreciation | (5,149) | (1,886) |
| | 5,263 | 1,574 |
| Medical equipment – at cost | 23,020 | 21,468 |
| Less: Accumulated depreciation | (13,441) | (10,166) |
| | 9,579 | 11,302 |
| | 30,822 | 28,207 |

### 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 under lease $'000 | Furniture and fittings $'000 | Office equipment $'000 | Medical equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2013 | 16,578 | – | 568 | 729 | 8,704 | 26,579 |
| Additions | 1,504 | – | 175 | 1,107 | 4,121 | 6,907 |
| Additions through business combinations (note 40) | 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 |
| Additions | 3,123 | 6 | 958 | 2,006 | 3,755 | 9,848 |
| Additions through business combinations (note 40) | 219 | 256 | 155 | 65 | 221 | 916 |
| Disposals | (265) | – | (3) | (27) | (59) | (354) |
| Exchange differences | 19 | – | 63 | (2) | (13) | 67 |
| Transfers in/(out) | 182 | – | (256) | 3,271 | (3,086) | 111 |
| Depreciation expense | (3,471) | (48) | (289) | (1,624) | (2,541) | (7,973) |
| Balance at 30 June 2015 | 14,414 | 214 | 1,352 | 5,263 | 9,579 | 30,822 |

### Property, plant and equipment secured under finance leases

Refer to note 37 for further information on property, plant and equipment secured under finance leases.

## NOTE 15. NON-CURRENT ASSETS – INTANGIBLES

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Goodwill – at cost | 379,168 | 345,988 |
| Software – at cost | 14,979 | 12,347 |
| Less: Accumulated amortisation | (11,422) | (10,861) |
| | 3,557 | 1,486 |
| Brand names – at cost | 14,475 | 13,581 |
| Less: Accumulated amortisation | (6,437) | (4,978) |
| | 8,038 | 8,603 |
| | 390,763 | 356,077 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
**for the year ended 30 June 2015**

## NOTE 15. 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 2013 | 319,029 | 993 | 5,038 | 325,060 |
| Additions | – | 1,100 | – | 1,100 |
| Additions through business combinations (note 40) | 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 |
| Additions | – | 2,745 | – | 2,745 |
| Additions through business combinations (note 40) | 33,405 | 7 | 886 | 34,298 |
| Exchange differences | (225) | (9) | 9 | (225) |
| Transfers in/(out) | – | (111) | – | (111) |
| Amortisation expense | – | (561) | (1,460) | (2,021) |
| Balance at 30 June 2015 | 379,168 | 3,557 | 8,038 | 390,763 |

### Impairment tests for goodwill

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

| | Consolidated 2015 $'000 | 2014 $'000 |
|---|---|---|
| New South Wales | 114,881 | 114,881 |
| Victoria | 124,904 | 124,904 |
| Queensland | 80,689 | 79,244 |
| Tasmania | 21,999 | – |
| International | 36,695 | 26,959 |
| | 379,168 | 345,988 |

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

### Key assumptions used for value in use calculations

#### Terminal growth rate

New South Wales – 2.5% (2014: 2.5%)
Victoria – 2.5% (2014: 2.5%)
Queensland – 2.5% (2014: 2.5%)
Tasmania – 2.5% (2014: n/a)
International – 2.5% (2014: n/a)

#### Pre–tax discount rate

New South Wales – 10.9% (2014: 11.5%)
Victoria – 10.9% (2014: 11.5%)
Queensland – 10.9% (2014: 11.5%)
Tasmania – 10.9% (2014: n/a)
International – 10.9% (2014: n/a)

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 16. NON-CURRENT ASSETS – DEFERRED TAX

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| *Deferred tax asset comprises temporary differences attributable to:* | | |
| Amounts recognised in profit or loss: | | |
| Impairment of receivables | 395 | 331 |
| Property, plant and equipment | (239) | (262) |
| Employee benefits | 2,768 | 2,499 |
| Provision for lease make good | 939 | 919 |
| Accrued expenses | 703 | 253 |
| Intangible assets | (1,329) | (1,822) |
| Other | 2,230 | 2,322 |
| | 5,467 | 4,240 |
| Amounts recognised in equity: | | |
| Transaction costs on share issue | 755 | 1,415 |
| Deductible option adjustment payments | 1,639 | 2,458 |
| Other | 203 | 41 |
| | 2,597 | 3,914 |
| Deferred tax assets | 8,064 | 8,154 |
| Amount expected to be recovered within 12 months | 3,544 | 1,760 |
| Amount expected to be recovered after more than 12 months | 4,520 | 6,394 |
| | 8,064 | 8,154 |
| *Movements:* | | |
| Opening balance | 8,154 | 6,877 |
| Credited/(charged) to profit or loss (note 8) | 45 | (2,308) |
| Credited to equity (note 8) | 163 | 4,138 |
| Additions through business combinations (note 40) | (298) | (553) |
| Closing balance | 8,064 | 8,154 |

## NOTE 17. NON-CURRENT ASSETS – OTHER

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Security deposits | 304 | 341 |

## NOTE 18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Trade payables | 10,331 | 10,284 |
| Other payables | 12,840 | 13,232 |
| | 23,171 | 23,516 |

Refer to note 32 for further information on financial risk management.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
**for the year ended 30 June 2015**

## NOTE 19. CURRENT LIABILITIES – BORROWINGS

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Lease liability | 50 | 62 |

Refer to note 23 for further information on assets pledged as security and financing arrangements.

Refer to note 32 for further information on financial risk management.

## NOTE 20. CURRENT LIABILITIES – INCOME TAX

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Provision for income tax | 4,256 | 4,507 |

## NOTE 21. CURRENT LIABILITIES – PROVISIONS

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Employee benefits – long service leave | 2,908 | 2,418 |

### 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 | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Long service leave obligation expected to be settled after 12 months | 2,082 | 1,731 |

## NOTE 22. CURRENT LIABILITIES – OTHER

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Deferred revenue | 5,390 | 3,634 |

## NOTE 23. NON-CURRENT LIABILITIES – BORROWINGS

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Bank loans (net of borrowing costs) | 152,148 | 139,281 |
| Lease liability | 98 | 135 |
| | 152,246 | 139,416 |

Refer to note 32 for further information on financial risk management.

### Total secured liabilities

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

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Bank loans (net of borrowing costs) | 152,148 | 139,281 |
| Lease liability | 148 | 197 |
| | 152,296 | 139,478 |

### 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 units representing the 50% interest are included in the charges over the consolidated entity.

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

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Cash and cash equivalents | 16,130 | 18,820 |
| Receivables | 10,835 | 11,052 |
| Inventories | 278 | 192 |
| Other current assets | 1,158 | 1,251 |
| Investments | 30,065 | 24,972 |
| Plant and equipment | 24,997 | 26,783 |
| Intangible assets (excluding goodwill) | 7,135 | 5,606 |
| Deferred tax assets | 8,304 | 8,140 |
| Other financial assets | 76 | 141 |
| | 98,978 | 96,957 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 23. NON-CURRENT LIABILITIES – BORROWINGS (continued)

### Financing arrangements

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

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Total facilities | | |
| Bank loans* | 200,000 | 140,000 |
| Working capital facilities* | 10,000 | 10,000 |
| | 210,000 | 150,000 |
| Used at the reporting date | | |
| Bank loans (excluding capitalised borrowing costs) | 153,000 | 140,000 |
| Working capital facilities | 3,430 | 3,366 |
| | 156,430 | 143,366 |
| Unused at the reporting date | | |
| Bank loans | 47,000 | – |
| Working capital facilities | 6,570 | 6,634 |
| | 53,570 | 6,634 |

* Credit facilities expire in September 2019

The consolidated entity has complied with the financial covenants of its borrowing liabilities during the financial year ended 30 June 2015 and 30 June 2014.

Working capital facilities utilised consist of $3,430,000 of bank guarantees.

## NOTE 24. NON-CURRENT LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Interest rate swap contracts – cash flow hedges | 676 | 137 |

Refer to note 32 for further information on financial risk management.

Refer to note 33 for further information on fair value measurement.

## NOTE 25. NON-CURRENT LIABILITIES – PROVISIONS

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Employee benefits – long service leave | 1,761 | 1,599 |
| Lease make good | 3,762 | 3,064 |
| | 5,523 | 4,663 |

### 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 – 2015 | Lease make good $'000 |
|---|---|
| Carrying amount at the start of the year | 3,064 |
| Additional provisions recognised | 640 |
| Unwinding of discount | 58 |
| Carrying amount at the end of the year | 3,762 |

## NOTE 26. NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Other financial liability | 24,705 | 11,802 |

Refer to note 33 for other information on financial instruments.

The other financial liability represents the fair value of the consideration to acquire the non-controlling interests in SIMS Clinic Limited and Tas IVF Pty Limited on the assumption that the put options held by the non-controlling interests are exercised.

## NOTE 27. EQUITY – ISSUED CAPITAL

| | Consolidated | | | |
|---|---|---|---|---|
| | 2015 Shares | 2014 Shares | 2015 $'000 | 2014 $'000 |
| Ordinary shares – fully paid | 79,935,938 | 79,722,678 | 238,429 | 237,135 |

### Movements in ordinary share capital

| Details | Date | Shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 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 |
| Shares issued – exercise of options | 18 September 2014 | 125,000 | $5.68 | 710 |
| Shares issued – acquisition of IVF Sunshine Coast Pty Limited | 31 October 2014 | 38,260 | $7.84 | 300 |
| Shares issued – exercise of options | 3 March 2015 | 50,000 | $5.68 | 284 |
| Balance | 30 June 2015 | 79,935,938 | | 238,429 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 27. EQUITY – ISSUED CAPITAL (continued)

### 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 $2.44 per share at 30 June 2015.

### 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.

## NOTE 28. EQUITY – RESERVES

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Foreign currency translation reserve | (275) | (400) |
| Cash flow hedges reserve | (476) | (96) |
| Share-based payments reserve | 11,587 | 10,642 |
| Put option business combination reserve | (23,825) | (11,756) |
| | (12,989) | (1,610) |

### Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from the 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 and Tas IVF Pty Limited acquisitions.

### 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 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) |
| Revaluation – net | – | (380) | – | – | (380) |
| Foreign currency translation | 125 | – | – | – | 125 |
| Option expense | – | – | 945 | – | 945 |
| Business combinations | – | – | – | (12,069) | (12,069) |
| Balance at 30 June 2015 | (275) | (476) | 11,587 | (23,825) | (12,989) |

## NOTE 29. EQUITY – RETAINED PROFITS/(ACCUMULATED LOSSES)

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Accumulated losses at the beginning of the financial year | (6,139) | (27,578) |
| Profit after income tax expense for the year | 29,434 | 30,885 |
| Dividends paid (note 31) | (21,300) | (9,446) |
| Retained profits/(accumulated losses) at the end of the financial year | 1,995 | (6,139) |

## NOTE 30. EQUITY – NON-CONTROLLING INTEREST

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Issued capital | 1,842 | 55 |
| Reserves | 15,965 | 10,113 |
| Retained profits | 1,079 | 72 |
| | 18,886 | 10,240 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 31. EQUITY – DIVIDENDS

### Dividends

Dividends paid during the financial year were as follows:

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Interim ordinary dividend for the year ended 30 June 2015 of 13.0 cents (2014: 12.0 cents) per fully paid share paid in April 2015 | 10,385 | 9,446 |
| Final ordinary dividend for the year ended 30 June 2014 of 14.0 cents per fully paid ordinary share paid in October 2014 | 10,915 | – |
| | 21,300 | 9,446 |

A final dividend of 14.00 cents per share, fully franked, will be paid on 16 October 2015 to the shareholders on the register at 2 October 2015.

### Franking credits

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 17,245 | 13,329 |

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

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

## NOTE 32. FINANCIAL 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 were not significant.

### Price risk

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

### Interest rate risk

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

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

| Consolidated | 2015 Weighted average interest rate % | 2015 Balance $'000 | 2014 Weighted average interest rate % | 2014 Balance $'000 |
|---|---|---|---|---|
| Bank loans | 4.10% | 153,000 | 4.65% | 140,000 |
| Interest rate swaps (notional principal amount) | –% | (50,000) | –% | (50,000) |
| Net exposure to cash flow interest rate risk | | 103,000 | | 90,000 |

During the prior year the consolidated entity entered in interest rate swap contracts 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 | | |
|---|---|---|---|---|---|---|
| Consolidated – 2015 | Basis points change | Effect on profit after tax | Effect on equity | Basis points change | Effect on profit after tax | Effect on equity |
| Bank loans | 100 | (721,000) | (721,000) | (100) | 721,000 | 721,000 |

| | Basis points increase | | | Basis points decrease | | |
|---|---|---|---|---|---|---|
| Consolidated – 2014 | Basis points change | Effect on profit after tax | Effect on equity | Basis points change | Effect on profit after tax | Effect on equity |
| Bank loans | 100 | (630,000) | (630,000) | (100) | 630,000 | 630,000 |

### 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
for the year ended 30 June 2015

## NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

### Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Bank loans* | 47,000 | – |
| Working capital facilities* | 6,570 | 6,634 |
| | 53,570 | 6,634 |

* Credit facilities expire in September 2019.

### 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 – 2015 | 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** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | –% | 10,331 | – | – | – | 10,331 |
| Other payables | –% | 12,840 | – | – | – | 12,840 |
| *Interest-bearing* | | | | | | |
| Bank loans | 4.10% | 6,273 | 6,273 | 167,111 | – | 179,657 |
| Lease liability | 7.66% | 61 | 94 | – | – | 155 |
| Other financial liability | 4.10% | – | – | 28,451 | – | 28,451 |
| Total non-derivatives | | 29,505 | 6,367 | 195,562 | – | 231,434 |
| **Derivatives** | | | | | | |
| Derivative financial instruments | –% | – | – | 676 | – | 676 |
| Total derivatives | | – | – | 676 | – | 676 |

| 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** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | –% | 10,284 | – | – | – | 10,284 |
| Other payables | –% | 13,232 | – | – | – | 13,232 |
| *Interest-bearing* | | | | | | |
| 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 |

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 33. 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 – 2015 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Derivative financial liabilities | – | 676 | – | 676 |
| Other financial liabilities | – | – | 24,705 | 24,705 |
| Total liabilities | – | 676 | 24,705 | 25,381 |

| Consolidated – 2014 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Liabilities* | | | | |
| 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 33. FAIR VALUE MEASUREMENT (continued)

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.

### Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates. Other financial liabilities have been valued using a forecast earnings model, discounted using specific borrowing rates.

### Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| Consolidated | Other financial liabilities $'000 | Total $'000 |
|---|---|---|
| Balance at 1 July 2013 | – | – |
| Additions | 11,802 | 11,802 |
| Balance at 30 June 2014 | 11,802 | 11,802 |
| Additions | 12,069 | 12,069 |
| Foreign exchange impact | (126) | (126) |
| Interest on unwinding | 960 | 960 |
| Balance at 30 June 2015 | 24,705 | 24,705 |

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

| Description | Unobservable inputs | Sensitivity |
|---|---|---|
| Other financial liabilities | Discount rate | a 1% change would increase/decrease the fair value by $615,000/($588,000) |
| | EBITDA growth rate | a 1% change would increase/decrease the fair value by $606,000/($590,000) |

## NOTE 34. 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 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Short-term employee benefits | 2,726,880 | 2,242,064 |
| Post-employment benefits | 195,512 | 142,475 |
| Long-term benefits | 32,617 | 40,538 |
| Share-based payments | 286,240 | 173,092 |
| | 3,241,249 | 2,598,169 |

## NOTE 35. 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 | |
|---|---|---|
| | 2015 $ | 2014 $ |
| *Audit services – PricewaterhouseCoopers* | | |
| Audit or review of the financial statements | 525,750 | 437,775 |
| *Other services – PricewaterhouseCoopers* | | |
| Due diligence | 128,131 | 127,240 |
| Tax compliance services | 62,976 | 62,500 |
| International tax consulting and tax advice on mergers and acquisitions | – | 101,200 |
| Non-statutory audits and reviews relating to acquisitions | 120,000 | – |
| | 311,107 | 290,940 |
| | 836,857 | 728,715 |
| *Audit services – network firms* | | |
| Audit or review of the financial statements | 141,954 | 29,480 |
| *Other services – network firms* | | |
| Due diligence | – | 25,373 |
| Tax services | 83,739 | – |
| | 83,739 | 25,373 |
| | 225,693 | 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 36. 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 $3,430,000 (2014: $3,366,000) 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 4 years (2014: 2 years).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
**for the year ended 30 June 2015**

## NOTE 37. COMMITMENTS

| | Consolidated 2015 $'000 | 2014 $'000 |
|---|---|---|
| *Lease commitments – operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 8,633 | 6,498 |
| One to five years | 20,102 | 13,966 |
| More than five years | 12,297 | 5,827 |
| | 41,032 | 26,291 |
| *Lease commitments – finance* | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 50 | 62 |
| One to five years | 105 | 155 |
| Total commitment | 155 | 217 |
| Less: Future finance charges | (7) | (20) |
| Net commitment recognised as liabilities | 148 | 197 |
| Representing: | | |
| Lease liability – current (note 19) | 50 | 62 |
| Lease liability – non-current (note 23) | 98 | 135 |
| | 148 | 197 |

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 $702,213 (2014: $295,887).

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of $nil (30 June 2014: $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.

## NOTE 38. RELATED PARTY TRANSACTIONS

### Parent entity

Virtus Health Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 41.

### Associates

Interests in associates are set out in note 42.

### Key management personnel

Disclosures relating to key management personnel are set out in note 34 and the remuneration report in the directors' report.

### Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Other revenue: | | |
| Rental income | 69,907 | 84,574 |
| Other transactions: | | |
| Provider fees (i) | 2,813,773 | 2,468,067 |

(i) The following key management personnel received provider fees for IVF services delivered to patients: Lyndon Hale, Peter Illingworth, David Molloy and William Watkins (30 June 2014: Lyndon Hale, Peter Illingworth and David Molloy).

### Receivable from and payable to related parties

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

| | Consolidated 2015 $ | Consolidated 2014 $ |
|---|---|---|
| Current receivables: | | |
| Trade receivables from associates | 1,189,450 | 887,965 |
| Other receivables | 6,773 | 5,396 |
| Current payables: | | |
| Other payables | 268,500 | 159,610 |

### Terms and conditions

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

## NOTE 39. PARENT ENTITY INFORMATION

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

### Statement of comprehensive income

| | Parent 2015 $'000 | Parent 2014 $'000 |
|---|---|---|
| Profit after income tax | 13,349 | 12,759 |
| Total comprehensive income | 13,349 | 12,759 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 39. PARENT ENTITY INFORMATION continued)

### Statement of financial position

| | Parent | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Total current assets | 1,884 | 942 |
| Total assets | 271,072 | 272,634 |
| Total current liabilities | 2,579 | 1,306 |
| Total liabilities | 6,363 | 1,376 |
| Net assets | 264,709 | 271,258 |
| Equity | | |
| Issued capital | 238,429 | 237,135 |
| Share-based payments reserve | 7,056 | 6,948 |
| Retained profits | 19,224 | 27,175 |
| Total equity | 264,709 | 271,258 |

### 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 2015 and 30 June 2014 apart from being a party to the deed of cross guarantee as detailed in note 43.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2015 and 30 June 2014.

### Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2015 and 30 June 2014.

### 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 40. BUSINESS COMBINATIONS

### Human Assisted Reproduction Ireland (HARI) Limited

On 31 December 2014, Sims Clinic Limited (a 70% subsidiary of Virtus Health Limited), formed a new company, Human Assisted Reproduction Ireland (HARI) Limited to acquire the IVF business and assets from The Governors and Guardians of the Hospital For The Relief Of Poor Lying In Women, Dublin (commonly known as the Rotunda Hospital). Total consideration transferred amounted to $9,041,000. The values identified in relation to the acquisition of the business are provisional as at 30 June 2015.

Details of the acquisition are as follows:

| | Fair value $'000 |
|---|---|
| Trade and other receivables | 184 |
| Plant and equipment | 259 |
| Employee benefits | (45) |
| Deferred revenue | (549) |
| Net liabilities acquired | (151) |
| Goodwill | 9,192 |
| Acquisition-date fair value of the total consideration transferred | 9,041 |
| Representing: | |
| Cash paid or payable to vendor | 9,041 |
| Acquisition costs expensed to profit or loss | 522 |

The acquired business contributed revenues and other income of $3,147,000 and profit before tax of $32,000 (including restructuring and integration costs and excluding the cost of financing the transaction) to the consolidated entity for the period from 31 December 2014 to 30 June 2015. If the acquisition had occurred on 1 July 2014, the full year contributions would have been revenues of $6,294,000 and profit before tax of $64,000 excluding any additional financing costs and including restructuring and integration costs. 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 2014, together with the consequential tax effects.

Goodwill is attributable to the workforce and the expected profitability of the acquired entity.

### Tas IVF Pty Limited

On 5 December 2014, Virtus Health Limited, acquired 70% of the issued share capital and units of Tas IVF Pty Ltd. Total consideration transferred amounted to $15,971,000. The values identified in relation to the acquisition of the company are provisional as at 30 June 2015.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2015

## NOTE 40. BUSINESS COMBINATIONS (continued)

Details of the acquisition are as follows:

| | Fair value $'000 |
|---|---|
| Cash and cash equivalents | 5,756 |
| Trade receivables | 438 |
| Plant and equipment | 475 |
| Brand names | 886 |
| Other intangible assets | 7 |
| Trade payables | (296) |
| Provision for income tax | (388) |
| Deferred tax liability | (69) |
| Employee benefits | (343) |
| Deferred revenue | (285) |
| Short-term debt | (5,309) |
| Net assets acquired | 872 |
| Goodwill | 21,999 |
| Acquisition-date fair value of the total consideration transferred | 22,871 |
| Representing: | |
| Cash paid or payable to vendor | 16,100 |
| Working capital adjustment receivable | (129) |
| Non-controlling interest | 6,900 |
| | 22,871 |
| Acquisition costs expensed to profit or loss | 227 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 15,971 |
| Add: Short-term debt | 5,309 |
| Less: cash and cash equivalents | (5,756) |
| Working capital adjustment – amount not yet settled | 129 |
| Net cash used | 15,653 |

The acquired business contributed revenues and other income of $4,561,000 and profit before tax of $1,593,000 (excluding the cost of financing the transaction) to the consolidated entity for the period from 5 December 2014 to 30 June 2015. If the acquisition had occurred on 1 July 2014, the full year contributions would have been revenues of $7,642,000 and profit before tax of $3,353,000 excluding any additional financing costs. 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 2014, together with the consequential tax effects.

Goodwill is attributable to the workforce and the profitability of the acquired entity.

### IVF Sunshine Coast Pty Limited

On 31 October 2014, Queensland Fertility Group Pty Limited, a fully owned subsidiary of Virtus Health Limited, acquired the remaining 80% of the issued share capital and units of IVF Sunshine Coast Pty Limited. Total consideration transferred amounted to $1,340,000. The values identified in relation to the acquisition of the company are provisional as at 30 June 2015.

Details of the acquisition are as follows:

| | Fair value $'000 |
|---|---|
| Cash and cash equivalents | 135 |
| Trade receivables | 33 |
| Income tax refund due | 22 |
| Other current assets | 31 |
| Plant and equipment | 183 |
| Deferred tax asset | 45 |
| Trade payables | (54) |
| Employee benefits | (12) |
| Other provisions | (133) |
| Deferred revenue | (182) |
| Lease liability | (173) |
| Net liabilities acquired | (105) |
| Goodwill | 1,445 |
| Acquisition-date fair value of the total consideration transferred | 1,340 |
| Representing: | |
| Cash paid or payable to vendor | 750 |
| Virtus Health Limited shares issued to vendor | 300 |
| Gain on remeasurement of previously held 20% investment to fair value | 300 |
| Working capital movement – amount not yet paid | (10) |
| | 1,340 |
| Acquisition costs expensed to profit or loss | 108 |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 1,040 |
| Less: cash and cash equivalents | (135) |
| Less: shares issued by company as part of consideration | (300) |
| Working capital adjustment | 10 |
| Net cash used | 615 |

The acquired business contributed revenues and other income of $1,265,000 and profit before tax of $137,000 (excluding the cost of financing the transaction) to the Group for the period from 1 November 2014 to 30 June 2015. If the acquisition had occurred on 1 July 2014, the full year contributions would have been revenues of $1,785,000 and profit before tax of $31,000 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 2014, together with the consequential tax effects.

Goodwill is attributable to the workforce and the profitability of the acquired entity.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 40. BUSINESS COMBINATIONS (continued)

### 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.

### 2015

Since the date of acquisition there have been changes to the acquired net assets and the working capital adjustment during the year ended 30 June 2015 which have resulted in an increase to goodwill of $769,000.

### 2014

Details of the acquisition are as follows:

| | 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) |
| Other provisions | (1,025) |
| Deferred revenue | (460) |
| Other payables | (384) |
| Net assets acquired | 6,605 |
| Goodwill | 27,289 |
| Acquisition-date fair value of the total consideration transferred | 33,894 |
| Representing: | |
| Cash paid or payable to vendor | 24,364 |
| Working capital adjustment receivable | (638) |
| Non-controlling interest | 10,168 |
| | 33,894 |

## NOTE 41. INTERESTS IN SUBSIDIARIES

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

| Name | Principal place of business/Country of incorporation | Ownership interest 2015 % | Ownership interest 2014 % |
|---|---|---|---|
| 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% | 100.00% |
| Virtus Health Ireland Limited | Ireland | 100.00% | 100.00% |
| Zentra Labs Limited | Ireland | 70.00% | 70.00% |
| SIMS Clinic Limited | Ireland | 70.00% | 70.00% |
| Xentra Pharm Limited | Ireland | 70.00% | 70.00% |
| SIMS Institute Limited | Ireland | 70.00% | 70.00% |
| SIMS EDE Limited | Ireland | 70.00% | 70.00% |
| IVF Sunshine Coast Limited | Australia | 100.00% | –% |
| Human Assisted Reproduction Ireland (HARI) Limited | Ireland | 70.00% | –% |
| TAS IVF Pty Limited | Australia | 70.00% | –% |
| Virtus Andrology Laboratory Singapore Pte. Ltd | Singapore | 90.00% | –% |
| Virtus Fertility Centre Singapore Pte Limited | Singapore | 90.00% | –% |
| Virtus Health Specialist Diagnostics Pty Limited | Australia | 100.00% | –% |

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 1:

| | | | Parent | | Non-controlling interest | |
|---|---|---|---|---|---|---|
| Name | Principal place of business/ Country of incorporation | Principal activities | Ownership interest 2015 % | Ownership interest 2014 % | Ownership interest 2015 % | Ownership interest 2014 % |
| SIMS Clinic Limited | Ireland | provision of healthcare services | 70.00% | 70.00% | 30.00% | 30.00% |
| TAS IVF Pty Limited | Australia | provision of healthcare services | 70.00% | –% | 30.00% | –% |
| Virtus Fertility Centre Singapore Pte Limited | Singapore | provision of healthcare services | 90.00% | –% | 10.00% | –% |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
**for the year ended 30 June 2015**

## NOTE 41. INTERESTS IN SUBSIDIARIES (continued)

### Summarised financial information

Set out below is the summarised financial information of the non-controlling interests that are material to the consolidated entity. The amounts disclosed are before inter-company eliminations.

| | SIMS Clinic Limited | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| *Summarised statement of financial position* | | |
| Current assets | 3,998 | 6,449 |
| Non-current assets | 12,443 | 1,579 |
| Total assets | 16,441 | 8,028 |
| Current liabilities | 6,358 | 5,152 |
| Non-current liabilities | 502 | 27 |
| Total liabilities | 6,860 | 5,179 |
| Net assets | 9,581 | 2,849 |
| *Summarised statement of comprehensive income* | | |
| Revenue | 26,343 | 1,539 |
| Expenses | (22,941) | (1,265) |
| Profit before income tax expense | 3,402 | 274 |
| Income tax expense | (514) | (34) |
| Profit after income tax expense | 2,888 | 240 |
| Other comprehensive income | – | – |
| Total comprehensive income | 2,888 | 240 |
| *Statement of cash flows* | | |
| Net cash from operating activities | 5,208 | 631 |
| Net cash used in investing activities | (11,207) | – |
| Net cash from financing activities | 4,923 | – |
| Net increase/(decrease) in cash and cash equivalents | (1,076) | 631 |
| *Other financial information* | | |
| Profit attributable to non-controlling interests | 866 | 72 |
| Dividends payable to non-controlling interests | 315 | – |
| Accumulated non-controlling interests at the end of reporting period | 12,030 | 10,240 |

### Transactions with non-controlling interests

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Dividends payable to non-controlling interest | (315) | – |
| Capital contribution received from non-controlling interest | 1,787 | – |
| | 1,472 | – |

## NOTE 42. 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:

| | | Ownership interest | |
|---|---|---|---|
| **Name** | **Principal place of business/ Country of incorporation** | **2015 %** | **2014 %** |
| 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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| *Summarised statement of financial position* | | |
| Current assets | 755 | 310 |
| Non-current assets | 1,456 | 1,656 |
| Total assets | 2,211 | 1,966 |
| Current liabilities | 1,098 | 1,419 |
| Total liabilities | 1,098 | 1,419 |
| Net assets | 1,113 | 547 |
| *Summarised statement of comprehensive income* | | |
| Revenue | 3,764 | 2,594 |
| Expenses | (3,201) | (2,405) |
| Profit before income tax | 563 | 189 |
| Other comprehensive income | – | – |
| Total comprehensive income | 563 | 189 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
**for the year ended 30 June 2015**

## NOTE 43. 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'.

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

| Statement of comprehensive income | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Revenue | 106,402 | 103,493 |
| Share of profits of associates accounted for using the equity method | 563 | 189 |
| Trust distributions received | 21,184 | 25,334 |
| Other income | 4,794 | 1,882 |
| Fertility specialists, consumables and associated costs | (28,195) | (28,548) |
| Employee benefits expense | (34,987) | (32,063) |
| Depreciation and amortisation expense | (4,906) | (4,594) |
| Occupancy expense | (6,280) | (6,235) |
| Advertising and marketing | (2,199) | (1,751) |
| Practice equipment expenses | (646) | (617) |
| Professional and consulting fees | (1,505) | (966) |
| Other expenses | (6,129) | (6,215) |
| Finance costs | (8,279) | (7,590) |
| **Profit before income tax expense** | 39,817 | 42,319 |
| Income tax expense | (11,240) | (12,604) |
| **Profit after income tax expense** | 28,577 | 29,715 |
| **Other comprehensive income** | | |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | (380) | (96) |
| Other comprehensive income for the year, net of tax | (380) | (96) |
| **Total comprehensive income for the year** | 28,197 | 29,619 |

| Equity – retained profits | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Retained profits/(accumulated losses) at the beginning of the financial year | 9,058 | (11,211) |
| Profit after income tax expense | 28,577 | 29,715 |
| Dividends paid | (21,300) | (9,446) |
| Retained profits at the end of the financial year | 16,335 | 9,058 |

| Statement of financial position | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 9,854 | 11,902 |
| Trade and other receivables | 38,414 | 39,220 |
| Other | 685 | 762 |
| | 48,953 | 51,884 |
| **Non-current assets** | | |
| Investments accounted for using the equity method | 1,489 | 1,489 |
| Other financial assets | 170,201 | 149,928 |
| Property, plant and equipment | 14,572 | 14,545 |
| Intangibles | 200,567 | 196,396 |
| Deferred tax | 6,418 | 8,707 |
| Other | 76 | 141 |
| | 393,323 | 371,206 |
| **Total assets** | 442,276 | 423,090 |
| **Current liabilities** | | |
| Trade and other payables | 14,911 | 16,072 |
| Income tax | 3,060 | 4,369 |
| Provisions | 1,699 | 1,487 |
| Other | 2,977 | 2,450 |
| | 22,647 | 24,378 |
| **Non-current liabilities** | | |
| Borrowings | 152,120 | 139,253 |
| Derivative financial instruments | 676 | 137 |
| Provisions | 2,489 | 2,583 |
| Other financial liabilities | 7,949 | – |
| | 163,234 | 141,973 |
| **Total liabilities** | 185,881 | 166,351 |
| **Net assets** | 256,395 | 256,739 |
| **Equity** | | |
| Issued capital | 238,429 | 237,135 |
| Reserves | 1,631 | 10,546 |
| Retained profits | 16,335 | 9,058 |
| **Total equity** | 256,395 | 256,739 |

## NOTE 44. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2015 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 45. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

| | Consolidated | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Profit after income tax expense for the year | 30,441 | 30,957 |
| Adjustments for: | | |
| Depreciation and amortisation | 9,994 | 8,192 |
| Share of profit – associates | (563) | (189) |
| Share-based payments | 945 | 456 |
| Amortisation of bank facility fees | 911 | 463 |
| Interest on finance lease facility | 13 | 17 |
| Interest income | (220) | (349) |
| Doubtful debts expense | 775 | 355 |
| Other non-cash items | (86) | (193) |
| Net (gain)/loss in disposal of non-current assets | 307 | 170 |
| Interest on other financial liabilities | 960 | – |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | (1,388) | 1,255 |
| Decrease/(increase) in inventories | (112) | 125 |
| Decrease in deferred tax assets | 226 | 2,267 |
| Increase/(decrease) in trade and other payables | (3,589) | 2,478 |
| Increase/(decrease) in provision for income tax | (251) | 5,591 |
| Increase in other provisions | 1,118 | 929 |
| Increase in other operating liabilities | 1,107 | 17 |
| Net cash from operating activities | 40,588 | 52,541 |

## NOTE 46. EARNINGS PER SHARE

| | Consolidated 2015 $'000 | Consolidated 2014 $'000 |
|---|---|---|
| Profit after income tax | 30,441 | 30,957 |
| Non-controlling interest | (1,007) | (72) |
| Profit after income tax attributable to the owners of Virtus Health Limited | 29,434 | 30,885 |
| Add: interest savings on conversion of options | 140 | 157 |
| Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share | 29,574 | 31,042 |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 79,861,949 | 79,593,751 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 1,067,866 | 1,087,109 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 80,929,815 | 80,680,860 |

| | Cents | Cents |
|---|---|---|
| Basic earnings per share | 36.86 | 38.80 |
| Diluted earnings per share | 36.54 | 38.48 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 47. SHARE-BASED PAYMENTS

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

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

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

**2015**

| Effective grant date | Expiry date | Exercise or base 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 | 438,005 | – | (175,000) | – | 263,005 |
| 01/07/2013 | 21/01/2024 | $0.00 | 45,136 | – | – | – | 45,136 |
| 01/07/2013 | 21/01/2024 | $0.00 | 96,238 | – | – | – | 96,238 |
| 01/01/2014 | 01/01/2024 | $8.69 | – | 29,073 | – | – | 29,073 |
| 03/10/2014 | 03/10/2024 | $8.57 | – | 117,251 | – | – | 117,251 |
| 10/11/2014 | 10/11/2024 | $7.65 | – | 85,990 | – | – | 85,990 |
| 13/05/2015 | 13/05/2025 | $7.16 | – | 7,372 | – | – | 7,372 |
| 13/05/2015 | 13/05/2025 | $7.53 | – | 912 | – | – | 912 |
| 13/05/2015 | 13/05/2025 | $7.94 | – | 794 | – | – | 794 |
| 13/05/2015 | 13/05/2025 | $7.96 | – | 343 | – | – | 343 |
| 13/05/2015 | 13/05/2025 | $8.01 | – | 262 | – | – | 262 |
| | | | 991,879 | 241,997 | (175,000) | – | 1,058,876 |

**2014**

| Grant date | Expiry date | Exercise or base price | Balance at the start of the year | Granted | Exercised | 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 | – | 45,136 | – | – | 45,136 |
| 01/07/2013 | 21/01/2024 | $0.00 | – | 96,238 | – | – | 96,238 |
| | | | 412,500 | 765,456 | (186,077) | – | 991,879 |

The weighted average exercise price is $5.50.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.8 years (2014: 4 years).

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

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|---|
| 01/01/2014* | 01/01/2024 | $8.74 | $0.00 | 25.00% | 3.30% | 2.70% | $1.63 |
| 03/10/2014 | 03/10/2024 | $7.78 | $0.00 | 25.00% | 3.30% | 2.87% | $1.20 |
| 10/11/2014 | 10/11/2024 | $7.65 | $0.00 | 25.00% | 3.40% | 2.70% | $1.24 |
| 13/05/2015 | 13/05/2025 | $7.34 | $0.00 | 20.50% | 3.50% | 2.15% | $0.75 |
| 13/05/2015 | 13/05/2025 | $7.34 | $0.00 | 20.50% | 3.50% | 2.15% | $0.19 |
| 13/05/2015 | 13/05/2025 | $7.34 | $0.00 | 20.50% | 3.50% | 2.15% | $0.09 |
| 13/05/2015 | 13/05/2025 | $7.34 | $0.00 | 20.50% | 3.50% | 2.15% | $0.08 |
| 13/05/2015 | 13/05/2025 | $7.34 | $0.00 | 20.50% | 3.50% | 2.15% | $0.06 |

* The effective grant date occurred in the prior financial year, however the yearly expense has been reflected in current financial year.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 30 June 2015

## NOTE 47. SHARE-BASED PAYMENTS (continued)

### 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 31st 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 commenced on 1 January 2015 for all eligible Fertility Specialists who did not achieve 400 cycles in calendar year 2014. The base price at date of grant is the average daily closing share price for the month ending 31 December 2014, which was $7.42; and
- The high performer share incentive is administered in accordance with the plan rules established in the Virtus Health Limited Specialist Option Plan approved by the Board in June 2013.

# DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes 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 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 give a true and fair view of the consolidated entity's financial position as at 30 June 2015 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 43 to the financial statements.

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

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

On behalf of the directors

**Peter Macourt**
Chairman

25 August 2015
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 2015, 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 Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

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

### *Auditor's responsibility*

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

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

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

### *Independence*

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
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*DX 77 Sydney, Australia*
*T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au*

# INDEPENDENT AUDITOR'S REPORT

## to the members of Virtus Health Limited

*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 2015 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 17 to 28 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*

PricewaterhouseCoopers

PricewaterhouseCoopers

Eddie Wilkie

Eddie Wilkie
Partner

Sydney
25 August 2015

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# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 21 August 2015.

## 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 | 3,360 | 1 |
| 1,001 to 5,000 | 2,782 | – |
| 5,001 to 10,000 | 389 | 1 |
| 10,001 to 100,000 | 222 | 33 |
| 100,001 and over | 76 | 9 |
| | 6,829 | 44 |
| 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 | |
|---|---|---|
| | Number held | % of total shares issued |
| Ellerston Capital | 12,617,651 | 15.78 |
| JCP Investment Partners | 9,585,223 | 11.99 |
| Antares Equities | 2,947,419 | 3.69 |
| Celeste Funds Mgt | 2,270,129 | 2.84 |
| Arnhem Investment Mgt | 1,831,994 | 2.29 |
| Norges Bank Investment Mgt | 1,738,888 | 2.18 |
| AMP Capital Investors | 1,704,383 | 2.13 |
| Pictet Asset Mgt | 913,186 | 1.14 |
| Vanguard Investments Australia | 869,225 | 1.09 |
| Mr & Mrs Michael G Buys | 850,000 | 1.06 |
| Mr Lyndon G Hale | 823,694 | 1.03 |
| Realindex Investments | 795,256 | 0.99 |
| Wilson Asset Mgt | 780,329 | 0.98 |
| State Street Global Advisors | 748,053 | 0.94 |
| Dimensional Fund Advisors | 743,786 | 0.93 |
| BlackRock Investment Mgt – Index | 693,896 | 0.87 |
| F&S Quinn Trust | 684,663 | 0.86 |
| Parametric Portfolio Associates | 683,999 | 0.86 |
| ATI Asset Mgt | 664,434 | 0.83 |
| Skeabost Pty Ltd | 654,020 | 0.82 |
| | 42,600,228 | 53.30 |

### Unquoted equity securities

There are no unquoted equity securities.

## SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| Ellerston Capital | 12,617,651 | 15.78 |
| JCP Investment Partners | 9,585,223 | 11.99 |

## 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 GOVERNANCE STATEMENT

The Corporate Governance Statement was approved by the Board of Directors on 21 August 2015 and can be found at http://virtushealth.com.au/corporategovernance

# CORPORATE DIRECTORY

## Directors

Peter Macourt – Chairman
Susan Channon
Dennis O'Neill
Lyndon Hale
Peter Turner
Sonia Petering

## Company secretary

Glenn Powers

## Notice of annual general meeting

The details of the annual general meeting of Virtus Health Limited are:
Wednesday 28 October 2015 at the Hilton Sydney at 2pm
488 George St, Sydney NSW 2000

## Registered office

Level 3, 176 Pacific Highway
Greenwich NSW 2065
Phone: (02) 9425 1722
Fax: (02) 9425 1633

## Principal place of business

Level 3, 176 Pacific Highway
Greenwich NSW 2065

## Share register

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

## Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

## Solicitors

Minter Ellison
Aurora Place
88 Phillip Street
Sydney NSW 2000

## Bankers

Australia and New Zealand Banking Group
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, United States of America

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

## Corporate Governance Statement

The Corporate Governance Statement was approved by the Board of Directors on 21 August 2015 and can be found at http://virtushealth.com.au/corporategovernance

virtushealth