

Virtus Health Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2014
Previous period:	For the half-year ended 31 December 2013

2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2014 ('H1 FY2015'). Key highlights from the results are:

			\$'000
Revenues from ordinary activities	up	12.9% to	114,488
Segment Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	6.2% to	37,954
Earnings Before Interest and Tax (EBIT)	up	1.4% to	28,264
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited	down	1.5% to	16,695
Profit from ordinary activities after tax	up	1.4% to	17,181
Profit for the half-year attributable to the owners of Virtus Health Limited	down	1.5% to	16,695

Dividends

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend for the year ended 30 June 2014 paid in October 2014	14.000	14.000

An interim dividend of 13.0 cents per share fully franked will be paid on 15 April 2015 to shareholders on the register at 3 April 2015.

Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$16,695,000 (31 December 2013: \$16,941,000).

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

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Segment EBITDA	37,954	35,753
Share-based payment expense	(410)	(302)
Net gain on acquisition of associate	300	-
Corporate and other non-trading expenses	(9,580)	(7,575)
	<hr/>	<hr/>
EBIT	28,264	27,876
Interest revenue	150	161
Interest expense	(3,933)	(3,797)
Amortisation of bank facility fees	(799)	(246)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>23,682</u>	<u>23,994</u>

Key features of the results are:

- Revenue increased by 12.9% to \$114.5m;
- EBITDA increased by 2.6% to \$32.8m;
- Australian segment EBITDA increased by 2.2% to \$36.8m;
- International segment EBITDA was \$1.2m after charging Singapore operation and business development costs (including commissioning expenses) of \$1,086,000;
- Segment EBITDA increased by 6.2% to \$38.0m; and
- Profit before income tax expense decreased to \$23.7m from \$24.0m.

Profit before tax includes commissioning and set-up costs in Singapore of \$911,000, acquisition transaction costs of \$857,000, a charge of \$653,000 reflecting the unamortised bank facility fees for the retired facility and a gain of \$300,000 on the remeasurement of the investment in IVF Sunshine Coast. Net profit before income tax expense adjusted for these items would have been \$25.8m, an increase of 7.5% against the prior year comparison.

Operating overview

Australia

There was a market volume contraction in New South Wales, Queensland and Victoria of 0.9% for Assisted Reproductive Services (“ARS”) in the first half and the eastern state market outlook remains subdued.

Cycle growth in Virtus clinics in the first half has been neutral with growth in New South Wales and Victoria offset by continued weakness in the Queensland market. Virtus continue 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.

Overall Virtus market share in the twelve months to December 2014 has increased to 45.6% from 45.0% for the equivalent twelve months to December 2013 and Virtus achieved like for like revenue growth of 1.6% in the period.

IVFA Australia opened a new ARS consulting and monitoring facility in Wahroonga, New South Wales in partnership with the Sydney Adventist Hospital.

Specialist diagnostic revenue increased by 17% in H1 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 equipment to further develop our capability and patient services in our PGD and genetic test activities.

In our day hospitals Virtus achieved revenue growth of 3.7% with good performances achieved at City West and City East in Sydney and East Melbourne where utilisation rates improved and process efficiencies were also implemented. Our joint venture, City West Specialist Day Hospital achieved a very strong result after adding non-IVF procedures from the public and private sectors; non-IVF procedure revenue increased by 8.7% across all day hospitals and now accounts for 56% of day hospital revenue.

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International

Virtus completed the development and commissioning of a new Virtus branded clinic in Singapore. Operating costs of the business development operation activity in Singapore were \$1,086,000 in the period. Virtus has contracted three fertility specialists in Singapore and IVF cycles commenced during January 2015.

Sims Clinic, acquired in May 2014, enjoyed a strong first half with volumes increasing by 25% compared to H1 FY2014; EBITDA margin improved to 24% of revenue. Sims Clinic also completed the development and commissioning of a new full service IVF clinic in Cork.

Capital Expenditure

Total expenditure on tangible and intangible assets was \$6.3m in H1 FY2015 (H1 FY2014; \$2.5M) including approximately \$3.0m in our new facility in Singapore.

Acquisitions

Virtus has completed three acquisitions since 30 June 2014:

- IVF Sunshine Coast – since acquiring the remaining 80% of this full service clinic at the end of October, in conjunction with the three fertility specialists and the Scientific Director Virtus has established two new clinics:
 - o IVF Sunshine Coast, a full service clinic based in Buderim; and
 - o a new TFC, based at Kawana Private Hospital
- Tas IVF – Virtus acquired 70% of Tasmania's leading IVF clinic based in Hobart on 5 December; 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; Rotunda IVF has three full time fertility specialists.

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 \$60m to \$210m and the consolidated entity comfortably met the financial covenants as set out in the agreement.

At 31 December 2014, total facilities drawn were \$148m in cash and \$3,376,000 in guarantees. Cash balances at the end of December 2014 were \$9,663,000.

Amortisation of borrowing costs

Amortisation of borrowing cost expense for H1 FY2015 was \$0.8m, including a write off of \$0.7m 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 H1 FY2015 was 27.5% (H1 FY2014; 29.4%) as a consequence of the true-up of the prior and current 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 1.7% to 20.93 cents per share (December 2013: 21.30 cents per share). Diluted earnings per share decreased by 2.4% to 20.71 cents per share (December 2013: 21.24 cents per share).

Dividend

An interim dividend of 13.00 cents per share fully franked (April 2014: 12.00 cents per share) will be paid on 15 April to shareholders on the register at 3 April.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(182.50)</u>	<u>(111.07)</u>

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4. Control gained over entities

Name of entities (or group of entities)	IVF Sunshine Coast Limited, TAS IVF Pty Limited and Human Assisted Reproduction Ireland (HARI) Limited
Date control gained	31 October 2014, 5 December 2014 and 31 December 2014
	\$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	257
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	N/A

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend for the year ended 30 June 2014 paid in October 2014	14.000	14.000
An interim dividend of 13.0 cents per share fully franked will be paid on 15 April 2015 to shareholders on the register at 3 April 2015.		

Previous period

	Amount per security Cents	Franked amount per security Cents
Interim ordinary dividend for the half year ended 31 December 2013 paid in April 2014	12.000	12.000

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Obstetrics & Gynaecological Imaging Australia Pty Limited and City West Specialist Day Hospital Pty Ltd	50.00%	50.00%	341	143
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			341	143
Income tax on operating activities			(102)	(43)

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

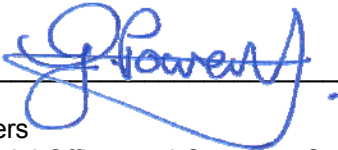
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Virtus Health Limited for the half-year ended 31 December 2014 is attached.

12. Signed

Signed 
Glenn Powers
Chief Financial Officer and Company Secretary
Sydney

Date: 24 February 2015

Virtus Health Limited

ABN 80 129 643 492

Interim Report - 31 December 2014

Virtus Health Limited
Directors' report
31 December 2014

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 half-year ended 31 December 2014.

Directors

The following persons were directors of Virtus Health Limited during the whole of the financial half-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 half-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.

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$16,695,000 (31 December 2013: \$16,941,000).

Profit before income tax expense decreased to \$23,682,000 from \$23,994,000, primarily a consequence of non-recurring charges relating to acquisition transaction costs (\$857,000) and amortisation of bank facility fees for the retired bank facility agreement (\$653,000).

Segment EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for non-specific non-cash and significant items.

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

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Segment EBITDA	37,954	35,753
Share-based payment expense	(410)	(302)
Net gain on acquisition of associate	300	-
Corporate and other non-trading expenses	(9,580)	(7,575)
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EBIT	28,264	27,876
Interest revenue	150	161
Interest expense	(3,933)	(3,797)
Amortisation of bank facility fees	(799)	(246)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>23,682</u>	<u>23,994</u>

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

For further details refer to ASX market announcement on 24 February 2015.

Virtus Health Limited
Directors' report
31 December 2014

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 12.

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

Rounding of amounts

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Macourt
Chairman

24 February 2015
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2014, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

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

Eddie Wilkie
Partner
PricewaterhouseCoopers

Sydney
24 February 2015

Virtus Health Limited
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31 December 2014

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General information

The financial statements cover Virtus Health Limited as a consolidated entity consisting of Virtus Health Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Virtus Health Limited's functional and presentation currency.

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 24 February 2015. The directors have the power to amend and reissue the financial statements.

Virtus Health Limited
Statement of comprehensive income
For the half-year ended 31 December 2014

	Note	Consolidated 31 Dec 2014 \$'000	31 Dec 2013 \$'000
Revenue	3	114,488	101,415
Share of profits of associates accounted for using the equity method		341	143
Other income	4	597	127
Expenses			
Fertility specialists, consumables and associated costs		(30,259)	(26,850)
Employee benefits expense		(35,990)	(30,213)
Depreciation and amortisation expense		(4,541)	(4,104)
Occupancy expense		(6,671)	(5,724)
Advertising and marketing		(1,452)	(1,236)
Practice equipment expenses		(852)	(614)
Professional and consulting fees		(2,054)	(759)
Other expenses		(5,193)	(4,148)
Finance costs	5	(4,732)	(4,043)
Profit before income tax expense		23,682	23,994
Income tax expense		(6,501)	(7,053)
Profit after income tax expense for the half-year		17,181	16,941
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(369)	118
Foreign currency translation		951	3
Other comprehensive income for the half-year, net of tax		582	121
Total comprehensive income for the half-year		<u>17,763</u>	<u>17,062</u>
Profit for the half-year is attributable to:			
Non-controlling interest		486	-
Owners of Virtus Health Limited		16,695	16,941
		<u>17,181</u>	<u>16,941</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		797	-
Owners of Virtus Health Limited		16,966	17,062
		<u>17,763</u>	<u>17,062</u>
		Cents	Cents
Basic earnings per share	14	20.93	21.30
Diluted earnings per share	14	20.71	21.24

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

Virtus Health Limited
Statement of financial position
As at 31 December 2014

	Note	Consolidated 31 Dec 2014 \$'000	30 Jun 2014 \$'000
Assets			
Current assets			
Cash and cash equivalents		9,663	21,498
Trade and other receivables		11,125	12,478
Inventories		362	166
Other		1,963	1,371
Total current assets		<u>23,113</u>	<u>35,513</u>
Non-current assets			
Investments accounted for using the equity method		1,489	1,489
Property, plant and equipment		30,510	28,207
Intangibles		391,439	356,077
Deferred tax		8,395	8,154
Other		308	341
Total non-current assets		<u>432,141</u>	<u>394,268</u>
Total assets		<u>455,254</u>	<u>429,781</u>
Liabilities			
Current liabilities			
Trade and other payables		21,565	23,516
Borrowings		48	62
Income tax		4,991	4,507
Provisions		2,871	2,418
Other		4,002	3,634
Total current liabilities		<u>33,477</u>	<u>34,137</u>
Non-current liabilities			
Borrowings		147,173	139,416
Derivative financial instruments		665	137
Provisions		5,136	4,663
Other financial liability	6	23,157	11,802
Total non-current liabilities		<u>176,131</u>	<u>156,018</u>
Total liabilities		<u>209,608</u>	<u>190,155</u>
Net assets		<u>245,646</u>	<u>239,626</u>
Equity			
Issued capital	7	238,145	237,135
Reserves	8	(11,781)	(1,610)
Accumulated losses		(482)	(6,139)
Equity attributable to the owners of Virtus Health Limited		<u>225,882</u>	<u>229,386</u>
Non-controlling interest		19,764	10,240
Total equity		<u>245,646</u>	<u>239,626</u>

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

Virtus Health Limited
Statement of changes in equity
For the half-year ended 31 December 2014

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'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 half-year	-	-	16,941	-	16,941
Other comprehensive income for the half-year, net of tax	-	121	-	-	121
Total comprehensive income for the half-year	-	121	16,941	-	17,062
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments	-	302	-	-	302
Tax benefit now determined relating to a portion of option adjustment payments made in June 2013	4,097	-	-	-	4,097
Balance at 31 December 2013	236,078	10,609	(10,637)	-	236,050
Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'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 half-year	-	-	16,695	486	17,181
Other comprehensive income for the half-year, net of tax	-	271	-	311	582
Total comprehensive income for the half-year	-	271	16,695	797	17,763
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 7)	1,010	-	-	-	1,010
Share-based payments	-	410	-	-	410
Put option business combination reserve	-	(10,852)	-	-	(10,852)
Non-controlling interest on acquisition of subsidiary	-	-	-	6,940	6,940
Issue of shares - non controlling interest	-	-	-	1,787	1,787
Dividends paid (note 9)	-	-	(11,038)	-	(11,038)
Balance at 31 December 2014	238,145	(11,781)	(482)	19,764	245,646

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

Virtus Health Limited
Statement of cash flows
For the half-year ended 31 December 2014

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	115,681	99,778
Payments to suppliers (inclusive of GST)	(85,303)	(71,527)
Other revenue	297	145
Interest and other finance costs paid	(3,502)	(3,432)
Income taxes paid	(5,627)	(2,754)
	<hr/>	<hr/>
Net cash from operating activities	21,546	22,210
Cash flows from investing activities		
Payments for acquisition of subsidiary and businesses, net of cash acquired	(25,692)	-
Payments for property, plant and equipment and intangibles	(6,310)	(2,497)
Proceeds from sale of property, plant and equipment	27	-
Interest received	150	161
Associate distributions received	-	143
	<hr/>	<hr/>
Net cash used in investing activities	(31,825)	(2,193)
Cash flows from financing activities		
Proceeds from issue of shares and other equity securities	710	-
Proceeds from issue of shares and other equity securities - non-controlling interest	1,787	-
Payment of dividends	(11,038)	-
Proceeds from borrowings	8,000	-
Repayment of borrowings	-	(13,000)
Payment of finance facility fees in relation to refinancing	(1,038)	-
Payment for finance lease facility	(26)	(107)
	<hr/>	<hr/>
Net cash used in financing activities	(1,605)	(13,107)
Net increase/(decrease) in cash and cash equivalents	(11,884)	6,910
Cash and cash equivalents at the beginning of the financial half-year	21,498	12,485
Effects of exchange rate changes on cash and cash equivalents	49	-
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial half-year	<u>9,663</u>	<u>19,395</u>

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2014 and are not expected to have any significant impact for the full financial year ending 30 June 2015. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Comparatives

Comparatives in the statement of comprehensive income have been reclassified, where necessary, to align with the current period presentation. There was no effect on profit or net assets.

Note 2. 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. For disclosure purposes the consolidated entity currently has two operating segments being Australia and International. The consolidated entity has determined that a disclosure of segments, healthcare services, Australia and International respectively is most appropriate due to the economic characteristics faced by the operating segments and the similar nature of the products and services being delivered to a similar patient base.

Segment revenue

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

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.

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

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 2. Operating segments (continued)

Operating segment information

Consolidated - 31 Dec 2014	Healthcare services Australia \$'000	Healthcare services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Revenue				
Sales to external customers	103,419	10,449	-	113,868
Intersegment sales	1,229	-	(1,229)	-
Total sales revenue	104,648	10,449	(1,229)	113,868
Other revenue	470	-	-	470
Interest revenue	133	1	16	150
Total revenue	105,251	10,450	(1,213)	114,488
Segment EBITDA	36,765	1,189	-	37,954
Share-based payment expense				(410)
Transaction costs				(857)
Net gain on acquisition of associate				300
Corporate costs				(4,182)
Depreciation and amortisation expenses				(4,541)
Interest revenue				150
Interest expense				(3,933)
Amortisation of bank facility fees				(799)
Profit before income tax expense				23,682
Income tax expense				(6,501)
Profit after income tax expense				17,181
Assets				
Segment assets	501,035	48,626	(107,816)	441,845
<i>Unallocated assets:</i>				
Cash and cash equivalents				1,703
Property, plant and equipment				1,169
Deferred tax asset				8,395
Other receivables				549
Intangibles				1,593
Total assets				455,254
Liabilities				
Segment liabilities	129,043	33,220	(115,107)	47,156
<i>Unallocated liabilities:</i>				
Provision for income tax				4,992
Trade payables				393
Other payables				978
Employee provisions				729
Non-current borrowings				147,015
Derivative financial instruments				665
Other financial liabilities				7,680
Total liabilities				209,608

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 2. Operating segments (continued)

	Healthcare services Australia \$'000	Healthcare services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated - 31 Dec 2013				
Revenue				
Sales to external customers	100,850	-	-	100,850
Intersegment sales	2,303	-	(2,303)	-
Total sales revenue	103,153	-	(2,303)	100,850
Other revenue	404	-	-	404
Interest revenue	161	-	-	161
Total revenue	103,718	-	(2,303)	101,415
Segment EBITDA				
	35,991	(238)	-	35,753
Share-based payment expense				(302)
Transaction costs				(43)
Depreciation and amortisation expenses				(4,104)
Corporate costs				(3,428)
Interest revenue				161
Interest expense				(3,797)
Amortisation of bank facility fees				(246)
Profit before income tax expense				23,994
Income tax expense				(7,053)
Profit after income tax expense				16,941
Consolidated - 30 Jun 2014				
Assets				
Segment assets	484,651	39,461	(111,685)	412,427
<i>Unallocated assets:</i>				
Cash and cash equivalents				5,857
Deferred tax asset				8,140
Other receivables				1,150
Property, plant and equipment				1,098
Intangibles				1,109
Total assets				429,781
Liabilities				
Segment liabilities	132,925	17,006	(106,579)	43,352
<i>Unallocated liabilities:</i>				
Trade payables				1,239
Other payables				1,047
Provision for income tax				4,507
Employee provisions				620
Non-current borrowings				139,253
Derivative financial instruments				137
Total liabilities				190,155

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 3. Revenue

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
<i>Sales revenue</i>		
Rendering of services	113,868	100,850
<i>Other revenue</i>		
Interest	150	161
Rent	470	404
	<u>620</u>	<u>565</u>
Revenue	<u><u>114,488</u></u>	<u><u>101,415</u></u>

Note 4. Other income

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Net gain on acquisition of associate	300	-
Other income	297	127
	<u>597</u>	<u>127</u>

Note 5. Expenses

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable	3,933	3,797
Amortisation of bank facility fees	799	246
	<u>4,732</u>	<u>4,043</u>
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	163	142
Share-based payments expense - employee benefits	247	160
	<u>410</u>	<u>302</u>

Note 6. Non-current liabilities - other financial liability

	Consolidated	
	31 Dec 2014	30 Jun 2014
	\$'000	\$'000
Other financial liability	<u><u>23,157</u></u>	<u><u>11,802</u></u>

The other financial liability represents the fair value of the put options held by the non-controlling interests in Sims Clinic Limited, TAS IVF Pty Limited and Human Assisted Reproduction Ireland (HARI) Limited.

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 7. Equity - issued capital

	Consolidated			
	31 Dec 2014	30 Jun 2014	31 Dec 2014	30 Jun 2014
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>79,885,938</u>	<u>79,722,678</u>	<u>238,145</u>	<u>237,135</u>

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 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	<u>38,260</u>	<u>\$7.84</u>	<u>300</u>
Balance	31 December 2014	<u>79,885,938</u>		<u>238,145</u>

Note 8. Equity - reserves

	Consolidated	
	31 Dec 2014	30 Jun 2014
	\$'000	\$'000
Foreign currency reserve	240	(400)
Hedging reserve - cash flow hedges	(465)	(96)
Share-based payments reserve	11,052	10,642
Put option business combination reserve	<u>(22,608)</u>	<u>(11,756)</u>
	<u>(11,781)</u>	<u>(1,610)</u>

Note 9. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Final dividend of 14.0 cents per fully paid share paid in October 2014	<u>11,038</u>	<u>-</u>

An interim dividend of 13.0 cents per share fully franked will be paid on 15 April 2015 to shareholders on the register at 3 April 2015.

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 10. 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 - 31 Dec 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	665	-	665
Other financial liability	-	-	23,157	23,157
Total liabilities	-	665	23,157	23,822

Consolidated - 30 Jun 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	137	-	137
Other financial liability	-	-	11,802	11,802
Total liabilities	-	137	11,802	11,939

Level 3 assets and liabilities

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

Consolidated	Other financial liabilities \$'000	Total \$'000
Balance at 1 July 2014	11,802	11,802
Additions	11,355	11,355
Balance at 31 December 2014	<u>23,157</u>	<u>23,157</u>

Note 11. 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 (30 June 2014: \$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 \$3,375,912 (30 June 2014: \$3,998,000) in the form of financial guarantees have been made against the working capital facility.

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 12. Business combinations

IVF Sunshine Coast 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 \$1,302,000. The values identified in relation to the acquisition of the businesses are provisional as at 31 December 2014.

Details of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	135
Trade receivables and other receivables	33
Income tax refund due	22
Other current assets	31
Plant and equipment	183
Deferred tax asset	45
Trade payables and other	(54)
Lease make good provision	(12)
Other provisions	(133)
Deferred revenue	(182)
Lease liability	(173)
	<hr/>
Net liabilities acquired	(105)
Goodwill	1,407
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>1,302</u>
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	(48)
	<hr/>
	<u>1,302</u>
	<hr/>
Acquisition costs expensed to profit or loss	<u>108</u>

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	1,002	-
Less: cash and cash equivalents	(135)	-
Less: shares issued by company as part of consideration	(300)	-
Working capital adjustment	48	-
	<hr/>	<hr/>
Net cash used	<u>615</u>	<u>-</u>

The acquired business contributed revenues and other income of \$356,044 and profit before tax of \$95,403 (excluding the cost of financing the transaction) to the consolidated entity for the period from 1 November 2014 to 31 December 2014. If the acquisition had occurred on 1 July 2014, the full half-year contributions would have been revenues of \$877,546 and loss before tax of \$10,449 excluding any additional financing or brand amortisation 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.

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 12. Business combinations (continued)

Tas IVF Pty Ltd

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 \$16,676,000. The values identified in relation to the acquisition of the businesses are provisional as at 31 December 2014.

Details of the acquisition are as follows:

	Fair value \$'000
Cash and cash equivalents	5,756
Trade receivables and other	439
Plant and equipment	488
Brands	886
Other intangible assets	7
Deferred tax asset	10
Trade and other payables	(310)
Provision for income tax	(388)
Employee benefits	(343)
Short-term debt	(5,309)
Deferred revenue	(285)
	<hr/>
Net assets acquired	951
Goodwill	22,665
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>23,616</u>
Representing:	
Cash paid or payable to vendor	16,100
Working capital movement	576
Non-controlling interest	6,940
	<hr/>
	<u>23,616</u>
	<hr/>
Acquisition costs expensed to profit or loss	<u>227</u>

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	16,676	-
Less: cash and cash equivalents	(5,756)	-
Add: short-term debt	5,309	-
Working capital adjustment - amount not yet paid	(576)	-
	<hr/>	<hr/>
Net cash used	<u>15,653</u>	<u>-</u>

The acquired business contributed revenues and other income of \$657,631 and profit before tax of \$230,306 (excluding the cost of financing the transaction) to the consolidated entity for the period from 1 December 2014 to 31 December 2014. If the acquisition had occurred on 1 July 2014, the full half-year contributions would have been revenues of \$4,187,588 and profit before tax of \$1,687,555 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.

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 12. Business combinations (continued)

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 businesses are provisional as at 31 December 2014.

Details of the acquisition are as follows:

	Fair value \$'000
Trade receivables and other receivables	184
Plant and equipment	259
Employee benefits	(45)
Deferred revenue	<u>(549)</u>
Net liabilities acquired	(151)
Goodwill	<u>9,192</u>
Acquisition-date fair value of the total consideration transferred	<u><u>9,041</u></u>
Representing:	
Cash paid or payable to vendor	<u><u>9,041</u></u>
Acquisition costs expensed to profit or loss	<u><u>522</u></u>
	Consolidated
	31 Dec 2014 31 Dec 2013
	\$'000 \$'000
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	<u><u>9,041</u></u> <u><u>-</u></u>

As Virtus only acquired the business and assets of the Rotunda Hospital and formed a new company on 31 December 2014, there is no effect to the current half-year's revenues and other income or profit before tax. If the acquisition had occurred on 1 July 2014, the full half-year contributions would have been revenues of \$3,424,000 and profit before tax of \$819,500 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.

Note 13. Events after the reporting period

Apart from the dividend declared as disclosed in note 9, no other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Virtus Health Limited
Notes to the financial statements
31 December 2014

Note 14. Earnings per share

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
Profit after income tax	17,181	16,941
Non-controlling interest	(486)	-
	<u>16,695</u>	<u>16,941</u>
Profit after income tax attributable to the owners of Virtus Health Limited	16,695	16,941
Add: interest savings on conversion of options	63	191
	<u>16,758</u>	<u>17,132</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	79,758,294	79,536,601
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,139,660	1,111,111
	<u>80,897,954</u>	<u>80,647,712</u>
	Cents	Cents
Basic earnings per share	20.93	21.30
Diluted earnings per share	20.71	21.24

Virtus Health Limited
Directors' declaration
31 December 2014

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Macourt
Chairman

24 February 2015
Sydney



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Virtus Health Limited (the Company), which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Virtus Health Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Virtus Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Virtus Health Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Eddie Wilkie

Eddie Wilkie
Partner

Sydney
24 February 2015