

APPENDIX 4E

PRELIMINARY FINAL REPORT

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	Year ended 30 June 2013
Previous corresponding period:	Year ended 30 June 2012

2. Results for announcement to the market

Revenues	up	13.0%	to	\$ 186,581,000
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	10.8%	to	\$ 43,429,000
Pro-forma EBITDA	up	8.7%	to	\$ 56,100,000
Earnings Before Interest and Tax (EBIT)	down	12.7%	to	\$ 34,684,000
Pro-forma EBIT	up	6.7%	to	\$ 47,600,000
Profit for the period attributable to the owners of Virtus Health Limited	down	48.6%	to	\$ 10,104,000
Pro-forma profit attributable to the owners of Virtus Health Limited	up	10.5%	to	\$ 27,300,000

Dividends

	Amount per security	Franked amount per security
Interim dividends for the year ended 30 June 2013	\$1.335	\$1.263

Interim dividends were paid to Virtus Health ordinary shareholders during the period from 1 July 2012 to 11 June 2013. No dividends were paid or declared for the period from 12 June 2013 to 30 June 2013.

Comments

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

The Directors of the consolidated entity ('Virtus') announce the results for the financial year ended 30 June 2013 ('FY2013'). Key highlights from the results are:

- Revenue increased by 13.0% to \$186.6m.
- EBITDA decreased by 10.8% to \$43.4m.
- Profit before income tax expense decreased to \$14.4m from \$26.4m.
- Pro-forma EBITDA increased by 8.7% to \$56.1m.

On a pro-forma basis, Virtus exceeded its IPO prospectus pro-forma EBITDA forecast for FY13 by \$0.8m. Statements of pro-forma adjustments to the statutory income statement and a pro-forma consolidated income statement are appended to the Preliminary Financial Report.

Virtus Health Limited
Preliminary final report

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

- IPO listing costs, \$10.7m.
- Share based payment costs, \$6.8m.
- Debt restructure costs, \$11.6m.

Partially offsetting these costs was a net gain on the acquisition of an associate company of \$5.7m.

Reconciliation of segment EBITDA to statutory profit before income tax

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

Operating overview

Virtus has achieved revenue growth of 13.0%. Virtus achieved IVF cycle growth of 3.8% in New South Wales, Queensland and Victoria compared to the equivalent Assisted Reproductive Services ('ARS') market volume growth of 1.2%. Virtus has seen strong growth in its low cost "The Fertility Centre" branded clinics and specialist diagnostics, particularly in its cytogenetic and pre-implantation genetic diagnosis testing activities. Diagnostic revenue growth has been 12.4%.

Virtus continued to expand its geographic footprint and enhance its existing facilities; total capital expenditure was \$10.6m in FY2013.

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

Virtus completed a relocation and expansion of its main Queensland Fertility Group Brisbane CBD clinic. The \$4.25m investment was completed at the end of the financial year and provides a newly refurbished facility to support Brisbane patients. Virtus also expanded the capacity of its cytogenetic testing facility to meet increased demand experienced in FY2013.

Virtus Health Limited
Preliminary final report

In day hospital activities Virtus acquired the remaining fifty per cent shareholding of City East Specialist Day Hospital, Maroubra, NSW in August 2012 and at the City West Specialist Day Hospital joint venture in Westmead, NSW, Virtus invested \$2.2m with the joint venture partners in a modernization and expansion program to create enhanced facilities for day hospital patients, more efficient operating facilities for specialists and additional operating capacity.

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

Outlook

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, Virtus expects that demand for assisted reproductive services and the associated diagnostic testing and day hospital procedures to continue to increase.

Virtus will continue to invest in new clinical and scientific services offered to patients to enable Virtus to meet the increased demand from the Australian market, particularly in NSW, Queensland and Victoria.

Debt and Interest Expense

On 11 June 2013, Virtus completed the renegotiation and drawdown of a new group bank facility agreement, replacing the previous bank facility which was due to mature in August 2013. The \$155m three year facility comprises:

- \$100m non-amortising facility;
- \$40m facility for general expenditure, working capital and capital expenditure; and
- \$15m working capital facility.

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

At 30 June 2013, total facilities drawn were \$145m in cash and \$4.35m in guarantees. Cash balances at the end of June 2013 were \$12.5m.

Amortisation of Borrowing Costs

Unamortised borrowing costs on expiring syndicated bank facilities which were terminated in FY2013 of \$5.1m were charged to the statement of comprehensive income. Amortisation of borrowing cost expense for the next financial year is expected to be \$0.37m.

Taxation

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

Dividend

No final dividend will be paid for the period following listing on 11 June 2013, as indicated in the prospectus for the listing of Virtus Health Limited ordinary shares on the ASX. Dividends of \$74.6m were paid to shareholders of Virtus prior to listing on 11 June 2013.

Capital return

During August 2012, \$55.3m of capital was returned to shareholders.

3. Net tangible assets

	Reporting period (138.89) cents	Previous corresponding period (163.18) cents
Net tangible assets per ordinary security		

4. Control gained over entities

Name of entities (or group of entities)	City East Specialist Day Hospital Pty Ltd
Date control gained	7 August 2012
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	\$ 1,399,000
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous corresponding period (where material)	\$ 1,710,000

5. Loss of control over entities

Name of entities (or group of entities)	Not applicable.
Date control lost	Not applicable
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities after income tax during the period (where material)	\$ -
Profit/(loss) from ordinary activities after income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material)	\$ -

6. Dividends

Current period

	Amount per security	Franked amount per security
Interim dividends for the year ended 30 June 2013	\$1.335	\$1.263

Interim dividends were paid to Virtus Health ordinary shareholders during the period from 1 July 2012 to 11 June 2013. No dividends were paid for the period from 12 June 2013 to 30 June 2013.

Previous corresponding period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

	Contribution to profit/(loss) (where material)	
	Current period	Previous corresponding period
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>		
Profit/(loss) from ordinary activities before income tax	\$ 282,000	\$ 1,436,000
Income tax on operating activities	\$ -	\$ -

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 accounts are currently in the process of being audited.

11. Attachments

Details of attachments (if any):

The Preliminary Financial Report of Virtus Health Limited for the year ended 30 June 2013 is attached.

12. Signed

Signed: 
Glenn Powers
Chief Financial Officer and Company Secretary

Date: 28 August 2013

Virtus Health Limited
Pro forma Results
Year ended 30 June 2013

Pro-forma adjustments to the statutory income statement

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

Table 1 - Pro-forma adjustments to the consolidated income statements for the financial year ended 30 June 2012 and 30 June 2013

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

Virtus Health Limited
Pro forma Results
Year ended 30 June 2013

Pro-forma consolidated income statements: Financial year ended 30 June 2013 compared to financial year ended 30 June 2012

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

Table 2 below sets out the pro forma consolidated income statement for the financial year ended 30 June 2013 compared to the pro-forma consolidated income statement for the financial year ended 30 June 2012.

Table 2 - Pro-forma consolidated income statements: Financial year ended 30 June 2013 compared to financial year ended 30 June 2012

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

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

Virtus Health Limited

(Formerly known as Virtus Health Pty Ltd)

ABN 80 129 643 492

Preliminary Financial Report - 30 June 2013

Virtus Health Limited
Statement of comprehensive income
For the year ended 30 June 2013

		Consolidated (unaudited)	
	Note	2013 \$'000	2012 \$'000
Revenue	3	186,581	165,119
Share of profits of associates accounted for using the equity method	4	282	1,436
Other income	5	5,992	369
Expenses			
Fertility specialists, consumables and associated costs		(55,630)	(44,674)
Employee benefits expense		(56,126)	(47,805)
Depreciation and amortisation expense	6	(8,745)	(8,972)
Occupancy expense		(10,327)	(8,813)
Advertising and marketing		(2,991)	(2,700)
Practice equipment expenses		(1,443)	(1,274)
Professional and consulting fees		(2,072)	(3,017)
Initial Public Offering transaction costs		(10,651)	-
Other expenses		(9,734)	(9,500)
Finance costs	6	(20,781)	(13,796)
Profit before income tax expense		14,355	26,373
Income tax expense	7	(4,251)	(6,713)
Profit after income tax expense for the year attributable to the owners of Virtus Health Limited	13	10,104	19,660
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Virtus Health Limited		<u>10,104</u>	<u>19,660</u>
		Cents	Cents
Basic earnings per share	18	17.78	36.73
Diluted earnings per share	18	16.78	34.22

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

Virtus Health Limited
Statement of financial position
As at 30 June 2013

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

	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Consolidated (unaudited)				
Balance at 1 July 2011	183,309	2,743	17,257	203,309
Profit after income tax expense for the year	-	-	19,660	19,660
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	19,660	19,660
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 11)	1,506	-	-	1,506
Share-based payments	-	516	-	516
Balance at 30 June 2012	184,815	3,259	36,917	224,991
	Issued capital \$'000	Reserves \$'000	Retained profits/ (accumulated losses) \$'000	Total equity \$'000
Consolidated (unaudited)				
Balance at 1 July 2012	184,815	3,259	36,917	224,991
Profit after income tax expense for the year	-	-	10,104	10,104
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	10,104	10,104
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs and option adjustment payments (note 11)	102,502	-	-	102,502
Share-based payments	-	6,927	-	6,927
Capital return	(55,336)	-	-	(55,336)
Dividends paid (note 14)	-	-	(74,599)	(74,599)
Balance at 30 June 2013	231,981	10,186	(27,578)	214,589

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

Virtus Health Limited
Statement of cash flows
For the year ended 30 June 2013

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

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

Virtus Health Limited
Notes to the financial statements
30 June 2013

Note 1. Basis of preparation

This report is based on the consolidated financial statements of Virtus Health Limited and its subsidiaries for the year ending 30 June 2013. These financial statements are in the process of being audited.

This report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

The principle accounting policies adopted in the preparation of this report are consistent with those disclosed in the Financial Report of Virtus Health Limited and its subsidiaries for the year ending 30 June 2012.

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. The consolidated entity currently has three operating segments being New South Wales, Queensland and Victoria. The consolidated entity has determined that a disclosure of one aggregated segment, healthcare services, is most appropriate due to the similar economic characteristics faced by of the operating segments and the similar nature of the products and services being delivered to a similar customer base.

Segment revenue

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

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

Virtus Health Limited
Notes to the financial statements
30 June 2013

Note 2. Operating segments (continued)

Operating segment information

Consolidated (unaudited) - 2013	Healthcare services \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Revenue			
Sales to external customers	185,304	-	185,304
Intersegment sales	2,660	(2,660)	-
Total sales revenue	187,964	(2,660)	185,304
Other revenue	825	-	825
Interest revenue	452	-	452
Total revenue	189,241	(2,660)	186,581
Segment EBITDA	56,282	-	56,282
Share-based payment expense	(6,927)	-	(6,927)
Initial Public Offering transaction costs	(10,651)	-	(10,651)
Net gain on acquisition of associate	5,670	-	5,670
Other non-trading expenses	(945)	-	(945)
Depreciation and amortisation expenses	(8,745)	-	(8,745)
Interest revenue	452	-	452
Interest expense	(15,856)	-	(15,856)
Revaluation of interest rate swap	136	-	136
Amortisation of bank facility	(5,061)	-	(5,061)
Profit before income tax expense	14,355	-	14,355
Income tax expense			(4,251)
Profit after income tax expense			10,104

Virtus Health Limited
Notes to the financial statements
30 June 2013

Note 2. Operating segments (continued)

Consolidated (unaudited) - 2012	Healthcare Services \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Revenue			
Sales to external customers	163,476	-	163,476
Intersegment sales	800	(800)	-
Total sales revenue	164,276	(800)	163,476
Other revenue	1,210	-	1,210
Interest revenue	433	-	433
Total revenue	165,919	(800)	165,119
Segment EBITDA	51,587	-	51,587
Share-based payment expense	(516)	-	(516)
Other non-trading expenses	(2,363)	-	(2,363)
Depreciation and amortisation expenses	(8,972)	-	(8,972)
Interest revenue	433	-	433
Interest expense	(11,978)	-	(11,978)
Revaluation of interest rate swap	(968)	-	(968)
Amortisation of bank facility	(850)	-	(850)
Profit before income tax expense	26,373	-	26,373
Income tax expense			(6,713)
Profit after income tax expense			19,660

Note 3. Revenue

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

Note 4. Share of profits of associates accounted for using the equity method

	Consolidated (unaudited)	
	2013 \$'000	2012 \$'000
Share of profit - associates	282	1,436

Virtus Health Limited
Notes to the financial statements
30 June 2013

Note 5. Other income

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Net gain on acquisition of associate	5,670	-
Trial grants	-	187
Other income	322	182
	<hr/>	<hr/>
Other income	5,992	369
	<hr/>	<hr/>

Note 6. Expenses

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

Virtus Health Limited
Notes to the financial statements
30 June 2013

Note 6. Expenses (continued)

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	6,380	-
Share-based payments expense - employee benefits	547	516
	<u>6,927</u>	<u>516</u>
Total share-based payments expense	<u>6,927</u>	<u>516</u>

Note 7. Income tax expense

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	7,999	9,772
Deferred tax - origination and reversal of temporary differences	(3,548)	(1,884)
Adjustment recognised for prior periods	(200)	(1,175)
	<u>4,251</u>	<u>6,713</u>
Aggregate income tax expense	<u>4,251</u>	<u>6,713</u>
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(3,548)	(1,884)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	14,355	26,373
Tax at the statutory tax rate of 30%	4,307	7,912
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	2,078	134
Research and development	(270)	(169)
Gain on acquisition of associate	(1,701)	-
Other	37	11
	<u>4,451</u>	<u>7,888</u>
Adjustment recognised for prior periods	(200)	(1,175)
	<u>4,251</u>	<u>6,713</u>
Income tax expense	<u>4,251</u>	<u>6,713</u>

Note 8. Current assets - cash and cash equivalents

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Cash at bank and on hand	<u>12,485</u>	<u>9,439</u>

Virtus Health Limited
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Note 9. Current liabilities - borrowings

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Bank loans	-	14,000
Lease liability	138	240
	<u>138</u>	<u>14,240</u>

Refer to note 10 for further information on assets pledged as security and financing arrangements.

Note 10. Non-current liabilities - borrowings

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Bank loans	143,879	88,943
Lease liability	179	324
	<u>144,058</u>	<u>89,267</u>

Bank loans

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

Total secured liabilities

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

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Bank loans	143,879	102,943
Lease liability	317	564
	<u>144,196</u>	<u>103,507</u>

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Note 10. Non-current liabilities - borrowings (continued)

Assets pledged as security

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

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

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

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

Financing arrangements

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

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

* Credit facilities expire in June 2016

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

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Note 11. Equity - issued capital

	Consolidated (unaudited)		Consolidated (unaudited)	
	2013	2012	2013	2012
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>79,536,601</u>	<u>53,644,738</u>	<u>231,981</u>	<u>184,815</u>

Movements in ordinary share capital

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

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

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

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

Ordinary shares

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

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

Share buy-back

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

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Note 11. Equity - issued capital (continued)

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.

The consolidated entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'trade and other payables' and 'borrowings' as shown in the statement of financial position) less 'cash and cash equivalents' as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position plus net debt.

The gearing ratio at the reporting date was as follows:

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Current liabilities - trade and other payables	17,485	15,450
Current liabilities - borrowings (note 9)	138	14,240
Non-current liabilities - borrowings (note 10)	144,058	89,267
Total borrowings	161,681	118,957
Current assets - cash and cash equivalents (note 8)	(12,485)	(9,439)
Net debt	149,196	109,518
Total equity	214,589	224,991
Total capital	363,785	334,509
Gearing ratio	41%	33%

Note 12. Equity - reserves

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

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Note 12. Equity - reserves (continued)

Share-based payments reserve

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

Note 13. Equity - retained profits/(accumulated losses)

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Retained profits at the beginning of the financial year	36,917	17,257
Profit after income tax expense for the year	10,104	19,660
Dividends paid (note 14)	(74,599)	-
	<u>(27,578)</u>	<u>36,917</u>
Retained profits/(accumulated losses) at the end of the financial year	<u>(27,578)</u>	<u>36,917</u>

Note 14. Equity - dividends

Dividends

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Interim ordinary dividend of 51.5 cents per fully paid share in June 2013	28,765	-
Interim ordinary dividend of 82.0 cents per fully paid ordinary share in August 2012	45,834	-
	<u>74,599</u>	<u>-</u>

No final dividend has been declared.

Franking credits

	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>920</u>	<u>32,079</u>

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

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Note 15. Business combinations

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

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

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	813	813
Trade receivables	1,004	1,004
Inventories	252	-
Other current assets	-	82
Plant and equipment	532	532
Goodwill	1,260	-
Trade payables	(587)	(587)
Other provisions	(310)	(310)
Net assets acquired	<u>2,964</u>	1,534
Goodwill		<u>14,672</u>
Acquisition-date fair value of the total consideration transferred		<u><u>16,206</u></u>
Representing:		
Cash paid to vendor		8,021
Amounts owed by associate		82
Fair value of initial 50% interest		<u>8,103</u>
		<u><u>16,206</u></u>
	Consolidated (unaudited)	
	2013	2012
	\$'000	\$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	16,206	-
Less: cash and cash equivalents acquired	(813)	-
Less: fair value of initial 50% interest	<u>(8,103)</u>	<u>-</u>
Net cash used	<u><u>7,290</u></u>	<u><u>-</u></u>

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Note 15. Business combinations (continued)

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

On 29 July 2011 Virtus Health Limited, through its wholly-owned subsidiary Queensland Fertility Group Pty Ltd, acquired 100% of the ordinary shares of Queensland Fertility Group Gold Coast Pty Ltd and its subsidiary Gold Coast Obstetrics & Gynaecology Specialist Services Pty Ltd ('Fertility Gold Coast') for the total consideration transferred of \$5,063,000. The values identified in relation to the acquisition of Fertility Gold Coast are final as at 30 June 2013.

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash and cash equivalents	86	86
Trade receivables	100	100
Plant and equipment	170	170
Deferred tax asset	19	19
Trade payables	(104)	(104)
Employee benefits	(49)	(49)
Other provisions	(54)	(54)
Deferred revenue	(57)	(57)
Net assets acquired	111	111
Goodwill		4,952
Acquisition-date fair value of the total consideration transferred		5,063
Representing:		
Cash paid to vendor		3,557
Fair value of equity instruments issued		1,506
		5,063
	Consolidated (unaudited)	Consolidated (unaudited)
	2013	2012
	\$'000	\$'000
Cash used to acquire business, net of cash acquired:		
Cash paid to vendor	-	3,557
Less: cash and cash equivalents acquired	-	(86)
Net cash used	-	3,471

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Note 15. Business combinations (continued)

Mackay Specialist Day Hospital Pty Limited (comparative period)

On 31 January 2012 Virtus Health Limited, through its wholly-owned subsidiary Queensland Fertility Group Pty Limited, acquired 100% of the ordinary shares of Mackay Specialist Day Hospital Pty Limited for the total consideration transferred of \$564,000. The values identified in relation to the acquisition of Mackay Specialist Day Hospital Pty Limited are final as at 30 June 2013.

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Plant and equipment	374	374
Other liabilities	(19)	(19)
	<u>355</u>	<u>355</u>
Net assets acquired		355
Goodwill		<u>209</u>
Acquisition-date fair value of the total consideration transferred		<u><u>564</u></u>
Representing:		
Cash paid to vendor		<u><u>564</u></u>
	Consolidated (unaudited)	Consolidated (unaudited)
	2013	2012
	\$'000	\$'000
Cash used to acquire business, net of cash acquired:		
Cash paid to vendor	<u>-</u>	<u>564</u>
Net cash used	<u><u>-</u></u>	<u><u>564</u></u>

Note 16. Reconciliation of gain arising from acquisition of the additional 50% of associate

	Consolidated (unaudited)	Consolidated (unaudited)
	2013	2012
	\$'000	\$'000
<i>Reconciliation of gain arising from acquisition of the additional 50% of City East Specialist Day Hospital Pty Ltd</i>		
Carrying value of 50% investment	2,433	-
Purchase price for 50% (note 15)	<u>(8,103)</u>	<u>-</u>
Gain on acquisition of an associate (note 5)	<u><u>(5,670)</u></u>	<u><u>-</u></u>

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Note 17. Reconciliation of profit after income tax to net cash from operating activities

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

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Note 18. Earnings per share

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