

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 2013
Previous period:	For the half-year ended 31 December 2012

2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2013 ('H1 FY2014'). Key highlights from the results are:

			\$'000
Revenues from ordinary activities	up	7.9% to	101,415
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	7.6% to	31,980
Pro-forma EBITDA	up	5.6% to	31,980
Earnings Before Interest and Tax (EBIT)	up	9.8% to	27,876
Profit for the half-year attributable to the owners of Virtus Health Limited	up	52.9% to	16,941
Pro-forma profit for the half-year attributable to the owners of Virtus Health Limited	up	10.5% to	16,941

Dividends

An interim dividend of 12.0 cents per share fully franked will be paid on 17 April 2014 to shareholders on the register at 4 April 2014.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$16,941,000 (31 December 2012: \$11,079,000).

Profit before income tax expense increased to \$23,994,000 from \$15,140,000.

A significant feature in the increase in statutory profit before tax was the reduction in interest and share based payment costs; the reductions occurred following the IPO of Virtus in June 2013. Major favourable movements included:

- Net interest costs, \$3.5m
- Share based payment costs, \$5.4m
- Amortisation of bank facility fees, \$2.5m

Virtus has achieved revenue growth of 7.9%; aggregate Assisted Reproductive Services ('ARS') market volume growth in New South Wales, Queensland and Victoria was 3.7%.

Growth in Virtus full service clinics in the first half has been neutral overall with New South Wales' strong performance offset by weakness in the Queensland market. Virtus continues to experience strong growth in its low cost "The Fertility Centre" ('TFC') branded clinics with all states meeting growth objectives. Overall Virtus market share in the twelve months to December 2013 has increased to 45.0% compared to 44.2% for the equivalent twelve months to December 2012.

Specialist diagnostic revenue growth has been 17% in H1 FY2014, with strong improvements achieved in cytogenetic and pre-implantation genetic diagnosis testing activities.

In our day hospitals Virtus achieved revenue growth of 7.7% with good performances achieved at City East Sydney and East Melbourne where utilisation rates improved and process efficiencies were also implemented.

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Total expenditure on tangible and intangible assets was \$2.7m in H1 FY2014 (H1 FY2013; \$2.5m) and the number of Fertility Specialists increased to 84 from 82 at 30 June 2013 (comprising two additions and no retirements).

A new ARS consulting and monitoring facility opened in Burwood in New South Wales and we completed the expansion of TFC Springwood in Queensland to meet strong patient demand following a very successful first full year of operation.

In our international business development activity we are pursuing several opportunities; costs of the business development operation activity were \$238,000 in the period.

Finally share based payment costs in the period were slightly higher than anticipated in the period reflecting adjustments to changes in valuation assumptions.

Pro-forma profit and loss account information is also provided to facilitate comparison with the IPO prospectus financial information.

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

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Segment EBITDA	35,753	32,450
Share-based payment expense	(302)	(5,720)
Net gain on acquisition of associate	-	5,503
Other non-trading expenses	(3,471)	(2,509)
Depreciation and amortisation expense	(4,104)	(4,342)
	<hr/>	<hr/>
EBIT	27,876	25,382
Interest revenue	161	222
Interest expense	(3,797)	(7,355)
Revaluation of interest rate swap	-	(335)
Amortisation of bank facility fee	(246)	(2,774)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>23,994</u>	<u>15,140</u>

Debt and interest expense

The \$150m debt facility comprises:

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

Interest payable by Virtus on the new facilities is lower than forecast in the IPO prospectus as a result of a lower base rate, and also a lower margin payable by Virtus which is a function of the current level of leverage.

At 31 December 2013, total facilities drawn were \$132m in cash and \$4.0m in guarantees. Cash balances at the end of December 2013 were \$19.4m (June 2013: \$12.5m).

Amortisation of borrowing costs

Amortisation of borrowing cost expense for H1 FY2014 was \$0.2m, significantly reduced from the prior year reflecting the change in financial structure following the IPO.

Taxation

The effective tax rate on operating earnings for FY13 was 29.4%.

Earnings per share

Basic earnings per share increased by 6.3% to 21.30 cents per share (December 2012: 20.03 cents per share). Diluted earnings per share increased by 15.5% to 21.24 cents per share (December 2012: 18.39 cents per share).

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Outlook

Virtus continues to review opportunities to develop its geographic footprint and this will include further organic expansion of the TFC network, and fertility clinic and day hospital acquisitions in Australia.

IVF market growth rates in the first half year were slightly lower than we anticipated. However the company continues to expect that it will meet its full year prospectus earnings forecast.

Diagnostic test activity continues to be a focus for the business with strategies being explored to gain a greater level of testing within the ever growing genetic testing market and Virtus has established a dedicated Genetics Working Party to focus on the increased use of genetic testing in IVF.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(111.07)</u>	<u>(327.81)</u>
Net assets per ordinary security	<u>296.78</u>	<u>255.19</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

An interim dividend of 12.0 cents per share fully franked will be paid on 17 April 2014 to shareholders on the register at 4 April 2014.

Previous period

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the year ended 30 June 2013 paid in August 2012	82.000	74.780

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%	143	292
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			143	292
Income tax on operating activities			(43)	(88)

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 2013 is attached.

12. Signed



Signed _____

Date: 26 February 2014

Glenn Powers
Chief Financial Officer and Company Secretary
Sydney

Virtus Health Limited
Pro forma Results
Half-year ended 31 December 2013

Pro-forma adjustments to the statutory income statement

The table below sets out the adjustment to the Statutory Results for half-years ended 31 December 2013, 31 December 2012 and full year-ended 30 June 2013 to primarily reflect the acquisitions that Virtus Limited has made since 1 July 2011 as if they had occurred as at 1 July 2011 and the 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:

	31 December 2013 \$m	Consolidated 31 December 2012 \$m	30 June 2013 \$m
Total income	101.6	99.9	192.9
Net gain on acquisition of City East Specialist Day Hospital	-	(5.6)	(5.7)
Share of profits of associates	(0.1)	(0.3)	(0.3)
Other income	(0.1)	-	(0.3)
Statutory revenue	101.4	94.0	186.6
Pro-forma impact of historical acquisitions	-	0.1	0.6
Interest received	(0.2)	(0.2)	(0.5)
Share of profits of associates	-	-	0.3
Other income	-	-	0.3
Pro-forma revenue	101.2	93.9	187.3
Statutory NPAT	16.9	11.1	10.1
Pro-forma impact of historical acquisitions and other one-off costs	-	1.1	1.1
Net gain on acquisition of City East Specialist Day Hospital	-	(5.6)	(5.7)
Share-based payments expense	-	5.6	6.8
Public company costs	-	(0.6)	(1.2)
IPO transaction costs	-	-	10.7
Debt structure costs	-	5.6	11.6
Amortisation	-	0.4	0.8
Income tax effect	-	(2.3)	(6.9)
Pro-forma NPAT	16.9	15.3	27.3

Virtus Health Limited
Pro forma Results
Half-year ended 31 December 2013

Pro-forma consolidated income statements: Financial half-year ended 31 December 2013 compared to financial half-year ended 31 December 2012 and full year 30 June 2013

The pro-forma consolidated income statement for the financial half-year ended 31 December 2013 and 31 December 2012 have been prepared on the same basis as the pro forma consolidated income statement for the twelve months ending 30 June 2013 published in the Virtus Health annual report for the year ended 30 June 2013.

The table below sets out the pro forma consolidated income statement for the financial half-year ended 31 December 2013 compared to the pro-forma consolidated income statement for the half-year ended 31 December 2012 and financial year ended 30 June 2013.

	Consolidated 31 December 2013 \$m	Consolidated 31 December 2012 \$m	Change	Consolidated 30 June 2013 \$m
Total revenue	101.2	93.9	7.8%	187.3
Labour costs	(30.2)	(28.0)	(7.9%)	(56.7)
Provider fees	(15.4)	(15.0)	(2.7%)	(29.4)
Facility and occupation costs	(6.3)	(5.6)	(12.5%)	(11.8)
Consumables and supplies	(11.5)	(9.3)	(23.7%)	(19.8)
Other operating costs	(5.8)	(5.7)	(1.8%)	(13.5)
Total expenses	(69.2)	(63.6)	(8.8%)	(131.2)
EBITDA	32.0	30.3	5.6%	56.1
Depreciation	(3.2)	(2.9)	(10.3%)	(6.5)
Amortisation	(0.9)	(1.0)	10.0%	(2.0)
EBIT	27.9	26.4	5.7%	47.6
Net interest expense	(3.9)	(4.6)	15.2%	(9.2)
Profit before tax	24.0	21.8	10.1%	38.4
Income tax expense	(7.1)	(6.5)	(9.2%)	(11.1)
NPAT	16.9	15.3	10.5%	27.3
NPATA	17.3	15.7	10.2%	28.0
<i>EBITDA Margin</i>	31.6%	32.3%	(0.7%)	30.0%
<i>EBIT Margin</i>	27.6%	28.1%	(0.5%)	25.4%
Summary key performance indicators				
Number of IVF Cycles – Virtus	7,618	7,327	4.0%	14,342
Average Total Revenue Per IVF Cycle	\$13,284	\$12,816	3.7%	\$13,060



Virtus Health Limited

ABN 80 129 643 492

Interim Report - 31 December 2013

Virtus Health Limited
Directors' report
31 December 2013

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Virtus Health Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the half-year ended 31 December 2013.

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
 Marcus Darville
 Susan Channon
 Dennis O'Neill
 Lyndon Hale
 Peter Turner

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 amounted to \$16,941,000 (31 December 2012: \$11,079,000).

Profit before income tax expense increased to \$23,994,000 from \$15,140,000.

A significant feature in the increase in statutory profit before tax was the reduction in interest and share based payment costs; the reductions occurred following the IPO of Virtus in June 2013. Major favourable movements included:

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Interest revenue	161	222
Interest expense	(3,797)	(7,355)
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Profit before income tax from continuing activities	<u>23,994</u>	<u>15,140</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 26 February 2014.

Significant changes in the state of affairs

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

Virtus Health Limited
Directors' report
31 December 2013

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

26 February 2014
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the 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 black ink that reads 'Eddie Wilkie'.

Eddie Wilkie
Partner
PricewaterhouseCoopers

26 February 2014

Virtus Health Limited
Financial report
31 December 2013

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General information

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

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

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

Level 3
176 Pacific Highway
Greenwich NSW 2065

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

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

Virtus Health Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2013

		Consolidated	
	Note	31 Dec 2013	31 Dec 2012
		\$'000	\$'000
Revenue	3	101,415	94,017
Share of profits of associates accounted for using the equity method		143	292
Other income	4	127	5,603
Expenses			
Fertility specialists, consumables and associated costs		(26,850)	(29,540)
Employee benefits expense		(30,213)	(28,020)
Depreciation and amortisation expense		(4,104)	(4,342)
Occupancy expense		(5,724)	(5,262)
Advertising and marketing		(1,236)	(1,292)
Practice equipment expenses		(614)	(624)
Professional and consulting fees		(759)	(691)
Other expenses		(4,148)	(4,537)
Finance costs	5	(4,043)	(10,464)
Profit before income tax expense		23,994	15,140
Income tax expense		(7,053)	(4,061)
Profit after income tax expense for the half-year attributable to the owners of Virtus Health Limited		16,941	11,079
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges transferred to profit or loss, net of tax		118	-
Foreign currency translation		3	-
Other comprehensive income for the half-year, net of tax		121	-
Total comprehensive income for the half-year attributable to the owners of Virtus Health Limited		<u>17,062</u>	<u>11,079</u>
		Cents	Cents
Basic earnings per share	12	21.30	20.03
Diluted earnings per share	12	21.24	18.39

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Virtus Health Limited
Statement of financial position
As at 31 December 2013

	Note	Consolidated	
		31 Dec 2013	30 Jun 2013
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		19,393	12,485
Trade and other receivables		11,049	10,278
Inventories		233	291
Income tax refund due		-	1,084
Other		1,601	1,061
Total current assets		<u>32,276</u>	<u>25,199</u>
Non-current assets			
Investments accounted for using the equity method		1,489	1,514
Derivative financial instruments		169	-
Property, plant and equipment		25,626	26,579
Intangibles		324,388	325,060
Deferred tax		9,397	6,877
Other		248	235
Total non-current assets		<u>361,317</u>	<u>360,265</u>
Total assets		<u>393,593</u>	<u>385,464</u>
Liabilities			
Current liabilities			
Trade and other payables		15,411	17,485
Borrowings		-	138
Income tax		1,689	-
Provisions		2,295	2,040
Other		2,863	3,157
Total current liabilities		<u>22,258</u>	<u>22,820</u>
Non-current liabilities			
Borrowings		131,286	144,058
Provisions		3,999	3,997
Total non-current liabilities		<u>135,285</u>	<u>148,055</u>
Total liabilities		<u>157,543</u>	<u>170,875</u>
Net assets		<u>236,050</u>	<u>214,589</u>
Equity			
Issued capital	6	236,078	231,981
Reserves	7	10,609	10,186
Accumulated losses		<u>(10,637)</u>	<u>(27,578)</u>
Total equity		<u>236,050</u>	<u>214,589</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 2013

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2012	184,815	3,259	36,917	224,991
Profit after income tax expense for the half-year	-	-	11,079	11,079
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	11,079	11,079
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 6)	2,036	-	-	2,036
Share-based payments	-	4,586	-	4,586
Capital return	(54,222)	-	-	(54,222)
Dividends paid (note 8)	-	-	(45,833)	(45,833)
Balance at 31 December 2012	132,629	7,845	2,163	142,637

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'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

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 2013

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	99,778	90,632
Payments to suppliers (inclusive of GST)	(71,527)	(66,110)
Other revenue	145	93
Interest and other finance costs paid	(3,432)	(7,318)
Income taxes paid	(2,754)	(8,264)
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Net cash from operating activities	22,210	9,033
Cash flows from investing activities		
Payments for acquisition of subsidiary and businesses, net of cash acquired	-	(7,290)
Payments for property, plant and equipment and intangibles	(2,497)	(2,537)
Interest received	161	222
Associate distributions received	143	-
	<hr/>	<hr/>
Net cash used in investing activities	(2,193)	(9,605)
Cash flows from financing activities		
Payment of dividends	-	(44,911)
Capital return to shareholders	-	(54,222)
Proceeds from borrowings	-	216,000
Repayment of borrowings	(13,000)	(101,877)
Payment on termination of hedges	-	(3,082)
Payment for finance lease facility	(107)	(158)
	<hr/>	<hr/>
Net cash from/(used in) financing activities	(13,107)	11,750
Net increase in cash and cash equivalents	6,910	11,178
Cash and cash equivalents at the beginning of the financial half-year	<hr/>	<hr/>
	12,485	9,439
Cash and cash equivalents at the end of the financial half-year	<hr/> <hr/>	<hr/> <hr/>
	19,395	20,617

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 2013 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 2013 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.

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

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with interests in other entities: subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities. It has significantly enhanced the disclosure requirements, when compared to the standards that have been replaced.

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

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

The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

Comparatives

Comparatives in the statement of profit or loss and other 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. 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 profit or loss and other 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
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31 December 2013

Note 2. Operating segments (continued)

Operating segment information

Consolidated - 31 Dec 2013	Healthcare services \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
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			
	35,753	-	35,753
Share-based payment expense			(302)
Other non-trading expenses			(3,471)
Depreciation and amortisation expenses			(4,104)
Interest revenue			161
Interest expense			(3,797)
Amortisation of bank facility fee			(246)
Profit before income tax expense			23,994
Income tax expense			(7,053)
Profit after income tax expense			16,941
Assets			
Segment assets	470,971	(93,701)	377,270
<i>Unallocated assets:</i>			
Property, plant and equipment			275
Derivative financial instruments			169
Deferred tax asset			9,397
Cash and cash equivalents			5,848
Other receivables			379
Intangibles			255
Total assets			393,593
Liabilities			
Segment liabilities	120,896	(97,342)	23,554
<i>Unallocated liabilities:</i>			
Provision for income tax			1,689
Trade payables			83
Other payables			1,074
Employee provisions			76
Non-current borrowings			131,067
Total liabilities			157,543

Virtus Health Limited
Notes to the financial statements
31 December 2013

Note 2. Operating segments (continued)

	Healthcare Services \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated - 31 Dec 2012			
Revenue			
Sales to external customers	93,009	-	93,009
Intersegment sales	1,445	(1,445)	-
Total sales revenue	94,454	(1,445)	93,009
Other revenue	786	-	786
Interest revenue	222	-	222
Total revenue	95,462	(1,445)	94,017
Segment EBITDA			
	32,450	-	32,450
Share-based payment expense			(5,720)
Net gain on acquisition of associate			5,503
Other non-trading expenses			(2,509)
Depreciation and amortisation expenses			(4,342)
Interest revenue			222
Interest expense			(7,355)
Revaluation of interest rate swap			(335)
Amortisation of bank facility fee			(2,774)
Profit before income tax expense			15,140
Income tax expense			(4,061)
Profit after income tax expense			11,079
Consolidated - 30 Jun 2013			
Assets			
Segment assets	469,441	(94,041)	375,400
<i>Unallocated assets:</i>			
Deferred tax asset			6,877
Cash and cash equivalents			60
Other receivables			312
Income tax refund due			1,084
Intangibles			18
Other			1,713
Total assets			385,464
Liabilities			
Segment liabilities	125,650	(100,533)	25,117
<i>Unallocated liabilities:</i>			
Trade payables			215
Other payables			1,287
Employee provisions			60
Current borrowings			138
Non-current borrowings			144,058
Total liabilities			170,875

Virtus Health Limited
Notes to the financial statements
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Note 3. Revenue

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
<i>Sales revenue</i>		
Rendering of services	100,850	93,009
<i>Other revenue</i>		
Interest	161	222
Rent	404	786
	<u>565</u>	<u>1,008</u>
Revenue	<u>101,415</u>	<u>94,017</u>

Note 4. Other income

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Net gain on acquisition of associate	-	5,503
Trial grants	3	8
Other income	124	92
	<u>127</u>	<u>5,603</u>
Other income	<u>127</u>	<u>5,603</u>

Note 5. Expenses

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable	3,797	7,355
Interest rate swaps (net)	-	335
Amortisation of bank facility fees	246	2,774
	<u>4,043</u>	<u>10,464</u>
Finance costs expensed	<u>4,043</u>	<u>10,464</u>
<i>Share-based payments expense</i>		
Share-based payments expense - fertility specialists	142	5,382
Share-based payments expense - employee benefits	160	338
	<u>302</u>	<u>5,720</u>
Total share-based payments expense	<u>302</u>	<u>5,720</u>

Note 6. Equity - issued capital

	Consolidated			
	31 Dec 2013	30 Jun 2013	31 Dec 2013	30 Jun 2013
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>79,536,601</u>	<u>79,536,601</u>	<u>236,078</u>	<u>231,981</u>

Virtus Health Limited
Notes to the financial statements
31 December 2013

Note 6. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2013	79,536,601		231,981
Tax benefit now determined relating to a portion of options adjustment payments made in June 2013		-		4,097
Balance	31 December 2013	<u>79,536,601</u>		<u>236,078</u>

Note 7. Equity - reserves

	Consolidated	
	31 Dec 2013	30 Jun 2013
	\$'000	\$'000
Foreign currency reserve	3	-
Hedging reserve - cash flow hedges	118	-
Share-based payments reserve	10,488	10,186
	<u>10,609</u>	<u>10,186</u>

Note 8. Equity - dividends

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

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Interim ordinary dividend of 82.0 cents per fully paid ordinary share paid in August 2012	-	45,833

An interim dividend of 12.0 cents per share, fully franked, will be paid on 17 April 2014 to shareholders on the register at 4 April 2014.

Note 9. Fair value measurement

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 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Derivative financial assets (interest rate swap)	-	169	-	169
Total assets	-	169	-	169

Virtus Health Limited
Notes to the financial statements
31 December 2013

Note 10. 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 2013: \$100,000). The consolidated entity has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but advice indicates that any liability that may arise in the unlikely event that the claims are successful will not be significant and will be covered by the consolidated entity's insurance policies.

Guarantees

Drawdowns of \$3,998,000 (30 June 2013: \$4,351,000) in the form of financial guarantees have been made against the working capital facility. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 2 1/2 years.

Note 11. Events after the reporting period

Apart from the dividend declared as disclosed in note 8, no other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 12. Earnings per share

	Consolidated	
	31 Dec 2013	31 Dec 2012
	\$'000	\$'000
Profit after income tax attributable to the owners of Virtus Health Limited	16,941	11,079
Add: interest savings on conversion of options	191	267
	<u>17,132</u>	<u>11,346</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	79,536,601	55,320,011
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,111,111	6,381,235
	<u>80,647,712</u>	<u>61,701,246</u>
	Cents	Cents
Basic earnings per share	21.30	20.03
Diluted earnings per share	21.24	18.39

Virtus Health Limited
Directors' declaration
31 December 2013

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 2013 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

26 February 2014
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, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other 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 during that 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 2013 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 2013 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
26 February 2014