

1. Company details

Name of entity:	Virtus Health Limited
ABN:	80 129 643 492
Reporting period:	For the half-year ended 31 December 2015
Previous period:	For the half-year ended 31 December 2014

2. Results for announcement to the market

The Directors of Virtus Health Limited ('Virtus') announce the results for the half-year ended 31 December 2015 ('H1 FY2016'). Key highlights from the results are:

			\$'000
Revenues from ordinary activities	up	15.4% to	132,161
Segment Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	9.0% to	41,388
Earnings Before Interest and Tax (EBIT)	up	8.1% to	30,568
Profit from ordinary activities after tax attributable to the owners of Virtus Health Limited	up	7.0% to	17,864
Profit from ordinary activities after tax	up	9.2% to	18,770
Profit for the half-year attributable to the owners of Virtus Health Limited	up	7.0% to	17,864

Dividends

	Amount per security Cents	Franked amount per security Cents
Final ordinary dividend for the year ended 30 June 2015 paid in October 2015	14.000	14.000

An interim dividend of 14.00 cents per share fully franked will be paid on 15 April 2016 for shareholders on the register at 01 April 2016.

Comments

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$17,864,000 (31 December 2014: \$16,695,000).

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

	Consolidated	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Segment EBITDA	41,388	37,954
Share-based payment expense	(392)	(410)
Net gain on acquisition of associate	-	300
Corporate and other non-trading expenses	(10,428)	(9,580)
	<hr/>	<hr/>
EBIT	30,568	28,264
Interest revenue	71	150
Interest expense	(3,745)	(3,562)
Interest on other financial liability - non-cash interest	(564)	(371)
Amortisation of bank facility fees	(106)	(799)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>26,224</u>	<u>23,682</u>

Key features of the results are:

- Revenue increased by 15.4% to \$132.2m
- EBITDA increased by 10.3% to \$36.2m
- Australian segment EBITDA increased by 6.2% to \$39.0m
- International segment EBITDA was \$2.4m after loss in Singapore operation of \$565,000;
- Segment EBITDA increased by 9.0% to \$41.4m
- Profit before income tax expense increased by 10.7% to \$26.2m from \$23.7m.

Profit before tax includes acquisition transaction costs of \$273,000 and non-cash acquisition related interest expense of \$564,000.

Operating overview

Australia

There was growth in market cycle volumes in New South Wales, Queensland, Tasmania and Victoria of 10.2% for Assisted Reproductive Services (“ARS”) in the first half with some of this growth supported by the increased activity of bulk bill providers in NSW. Cycle growth in Virtus clinics in the first half has been 6.2% on a like for like basis with fresh cycle volume growth achieved in all territories; organic growth in full service clinics was 3.2%. Overall fresh cycle volumes including acquisitions increased by 11.0% compared to the prior year first half.

Virtus experienced mixed results in “The Fertility Centre” branded clinics with the Liverpool TFC adversely affected by increased competition; this resulted in a decline in EBITDA of approximately \$600,000. On the positive side, Wollongong and Sunshine Coast have both made strong contributions to our TFC activity; overall TFC volumes increased by 19%.

Virtus market share (in New South Wales, Queensland, Tasmania and Victoria) in the twelve months to December 2015 has decreased to 44.6% from 45.7% for the equivalent twelve months to December 2014.

Specialist diagnostic revenue increased by 0.6% in H1 FY2016 compared to H1 FY2015 reflecting price deflation in the genetic testing activities and endocrinology. Revenue in our PGD/PGS activity decreased by 4.7% following the introduction of a new price structure; this revised pricing structure however did lead to a 54% increase in the number of treated cases and this represents an increase in the utilisation of this capability in our full service clinics to 9.7% of fresh cycles (H1 FY2015: 6.7%). In addition, the utilisation of new gene sequencing technology has been slightly slower than expected partially due to delays in the commissioning of one of our new test panels; these have now been resolved.

In day hospitals Virtus achieved revenue growth of 3.0% with good performances achieved at City West and North Shore in Sydney where utilisation rates improved. Non-IVF procedure revenue accounting for 53% of total day hospital revenue increased by 0.4% across all day hospitals.

International

Sims Clinic enjoyed a solid first half with volumes increasing by 3.3% compared to H1 FY2015; our combined volume increase in Ireland including Rotunda IVF, acquired in December 2014 was 46%. Rotunda IVF is performing profitably although volumes have been slightly depressed by a shortage of fertility specialist resource during the period.

Volumes in Singapore have improved but remain below our break-even level; the first half loss was \$565,000.

Capital Expenditure

Total expenditure on tangible and intangible assets was \$4.9m in H1 FY2016 (H1 FY2015; \$6.3M) reflecting a period of consolidation in our geographic footprint. Our most significant investment was in Launceston, Tasmania where we established a new clinic to service the northern region of the state.

Acquisitions

In September Virtus acquired the business and certain assets of Independent Diagnostic Services (IDS), a general category pathology laboratory based in Sydney, Australia, as part of its strategy to expand and strengthen its diagnostics services. The acquisition enables Virtus to expand the scope of diagnostic tests that can be conducted in-house and facilitates the retention of revenue for the wide array of tests that are already conducted as part of fertility treatment.

Debt and interest expense

At 31 December 2015, total facilities drawn were broadly unchanged at \$153m in borrowings and \$3,927,000 in guarantees. Cash balances at the end of December 2015 were \$19,084,000.

Other financial liabilities (\$25.7m)

The non-controlling interests of Sims Clinic Limited and TasIVF Pty Limited hold put options established at the time of acquisition. Consequently in accordance with accounting standards the group is required to recognise a liability for the estimated consideration to acquire the non-controlling interests. This liability has been discounted at the date of acquisition and the corresponding entry is included in reserves. The unwinding of the inherent discounting within the liability has resulted in a non-cash interest expense in H1 FY2016 of \$564,000 (FY2015: \$371,000).

Amortisation of borrowing costs

Amortisation of borrowing cost expense for H1 FY2016 was \$106,000.

Taxation

The effective tax rate on operating earnings for H1 FY2016 was 28.4% (H1 FY2015: 27.5%) as a consequence of the 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 increased by 6.8% to 22.35 cents per share (December 2014: 20.93 cents per share). Diluted earnings per share increased by 6.9% to 22.13 cents per share (December 2014: 20.71 cents per share).

Dividend

An interim dividend of 14.00 cents per share fully franked (April 2015: 13.00 cents per share) will be paid on 15 April 2016 to shareholders on the register at 01 April 2016.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(176.29)</u>	<u>(182.50)</u>

4. Control gained over entities

Not applicable.

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 2015 paid in October 2015	14.000	14.000

Previous 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

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%	403	341
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			403	341
Income tax on operating activities			(121)	(102)

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.

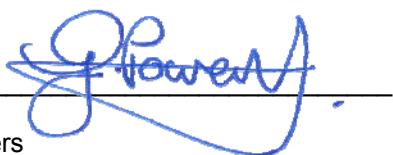
11. Attachments

Details of attachments (if any):

The Interim Report of Virtus Health Limited for the half-year ended 31 December 2015 is attached.

12. Signed

Signed _____

A handwritten signature in blue ink, appearing to read "Glenn Powers", written over a horizontal line.

Glenn Powers
Chief Financial Officer and Company Secretary
Sydney

Date: 23 February 2016

Virtus Health Limited

ABN 80 129 643 492

Interim Report - 31 December 2015

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 2015.

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

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 \$17,864,000 (31 December 2014: \$16,695,000).

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 2015	31 Dec 2014
	\$'000	\$'000
Segment EBITDA	41,388	37,954
Share-based payment expense	(392)	(410)
Net gain on acquisition of associate	-	300
Corporate and other non-trading expenses	(10,428)	(9,580)
	<hr/>	<hr/>
EBIT	30,568	28,264
Interest revenue	71	150
Interest expense	(3,745)	(3,562)
Interest on other financial liability - non-cash interest	(564)	(371)
Amortisation of bank facility fees	(106)	(799)
	<hr/>	<hr/>
Profit before income tax from continuing activities	<u>26,224</u>	<u>23,682</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 23 February 2016.

Significant changes in the state of affairs

On 14 September 2015, Virtus Health Limited formed a new company, Virtus Health Specialist Diagnostics Pty Limited, to acquire the business and assets of Independent Diagnostic Services Pty Limited for total consideration of \$3,455,000.

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

A handwritten signature in blue ink that reads "Peter Macourt".

Peter Macourt
Chairman

23 February 2016
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Virtus Health Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

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

Sydney
23 February 2016

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General information

The financial statements cover Virtus Health Limited as a consolidated entity consisting of Virtus Health Limited and the entities it controlled at the end of, or during, the half-year. 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 23 February 2016. 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 2015



	Note	Consolidated	Consolidated
		31 Dec 2015	31 Dec 2014
		\$'000	\$'000
Revenue	3	132,161	114,488
Share of profits of associates accounted for using the equity method		403	341
Other income	4	406	597
Expenses			
Fertility specialists, consumables and associated costs		(36,486)	(30,259)
Employee benefits expense		(42,455)	(35,990)
Depreciation and amortisation expense		(5,625)	(4,541)
Occupancy expense		(7,226)	(6,671)
Advertising and marketing		(1,967)	(1,452)
Practice equipment expenses		(994)	(852)
Professional and consulting fees		(1,262)	(2,054)
Other expenses		(6,316)	(5,193)
Finance costs	5	(4,415)	(4,732)
Profit before income tax expense		26,224	23,682
Income tax expense		(7,454)	(6,501)
Profit after income tax expense for the half-year		18,770	17,181
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		(279)	(369)
Foreign currency translation		739	951
Other comprehensive income for the half-year, net of tax		460	582
Total comprehensive income for the half-year		<u>19,230</u>	<u>17,763</u>
Profit for the half-year is attributable to:			
Non-controlling interest		906	486
Owners of Virtus Health Limited		17,864	16,695
		<u>18,770</u>	<u>17,181</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		1,045	797
Owners of Virtus Health Limited		18,185	16,966
		<u>19,230</u>	<u>17,763</u>
		Cents	Cents
Basic earnings per share	14	22.35	20.93
Diluted earnings per share	14	22.13	20.71

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

	Consolidated	
	31 Dec 2015	30 Jun 2015
	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	19,084	18,371
Trade and other receivables	12,331	13,647
Inventories	552	278
Other	2,499	1,508
Total current assets	<u>34,466</u>	<u>33,804</u>
Non-current assets		
Investments accounted for using the equity method	1,489	1,489
Property, plant and equipment	30,462	30,822
Intangibles	395,607	390,763
Deferred tax	6,577	8,064
Other	294	304
Total non-current assets	<u>434,429</u>	<u>431,442</u>
Total assets	<u>468,895</u>	<u>465,246</u>
Liabilities		
Current liabilities		
Trade and other payables	21,226	23,171
Borrowings	50	50
Income tax	480	4,256
Provisions	2,996	2,908
Other	4,346	5,390
Total current liabilities	<u>29,098</u>	<u>35,775</u>
Non-current liabilities		
Borrowings	152,288	152,246
Derivative financial instruments	1,078	676
Provisions	5,996	5,523
Other financial liability	25,749	24,705
Total non-current liabilities	<u>185,111</u>	<u>183,150</u>
Total liabilities	<u>214,209</u>	<u>218,925</u>
Net assets	<u>254,686</u>	<u>246,321</u>
Equity		
Issued capital	7	238,429
Reserves	8	(12,276)
Retained profits		8,668
Equity attributable to the owners of Virtus Health Limited		<u>235,082</u>
Non-controlling interest		19,604
Total equity		<u>254,686</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 2015



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	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

Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2015	238,429	(12,989)	1,995	18,886	246,321
Profit after income tax expense for the half-year	-	-	17,864	906	18,770
Other comprehensive income for the half-year, net of tax	-	321	-	139	460
Total comprehensive income for the half-year	-	321	17,864	1,045	19,230
<i>Transactions with owners in their capacity as owners:</i>					
Settlement of partly paid shares	261	-	-	-	261
Share-based payments	-	392	-	-	392
Dividends payable by subsidiary to non-controlling interest	-	-	-	(356)	(356)
Non-controlling interest on acquisition of subsidiary	-	-	-	29	29
Dividends paid (note 9)	-	-	(11,191)	-	(11,191)
Balance at 31 December 2015	238,690	(12,276)	8,668	19,604	254,686

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 2015



	Consolidated	
	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	131,872	115,681
Payments to suppliers (inclusive of GST)	(98,620)	(85,303)
Other revenue	406	297
Interest and other finance costs paid	(3,730)	(3,502)
Income taxes paid	(9,621)	(5,627)
	<u>20,307</u>	<u>21,546</u>
Cash flows from investing activities		
Payments for acquisition of subsidiary and businesses, net of cash acquired	(3,758)	(25,692)
Payments for property, plant and equipment and intangibles	(4,868)	(6,310)
Proceeds from disposal of property, plant and equipment	56	27
Interest received	71	150
Associate distributions received	200	-
	<u>(8,299)</u>	<u>(31,825)</u>
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
Proceeds from partly paid shares	122	-
Payment of dividends	(11,052)	(11,038)
Dividends paid to non-controlling interest in subsidiaries	(356)	-
Proceeds from borrowings	-	8,000
Payment of finance facility fees in relation to refinancing	-	(1,038)
Payment for finance lease facility	(76)	(26)
	<u>(11,362)</u>	<u>(1,605)</u>
Net increase/(decrease) in cash and cash equivalents	646	(11,884)
Cash and cash equivalents at the beginning of the financial half-year	18,371	21,498
Effects of exchange rate changes on cash and cash equivalents	67	49
	<u>19,084</u>	<u>9,663</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 2015 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 2015 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 2015 and are not expected to have any significant impact for the full financial year ending 30 June 2016.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 15 Revenue from contracts with customers

AASB 15 Revenue from contracts with customers, which replaces AASB 18 which covers contracts for goods and services and AASB 111 which covers construction contracts, addresses the recognition of revenue. The standard is applicable for annual reporting periods beginning on or after 1 January 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2018), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

At this stage, the consolidated entity intends to make a more detailed assessment of the impact over the next 12 months. The consolidated entity does not expect to adopt the new standard before 1 July 2018.

IFRS 16 Leases

In January 2016 the International Accounting Standards Board (IASB) issued IFRS 16, 'Leases', which amends the accounting for leases. The standard is applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. The standard requires lessees to bring all leases on Balance Sheet as the distinction between operating and finance leases has been eliminated. Lessor accounting remains largely unchanged.

The consolidated entity intends to make a more detailed assessment of the impact over the next 12 months. The consolidated entity does not expect to adopt the new standard before 1 July 2019.

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 segmental reporting on this basis 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:

Operating segment information

Consolidated - 31 Dec 2015	Healthcare services Australia \$'000	Healthcare services International \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Revenue				
Sales to external customers	112,852	18,544	-	131,396
Other revenue	694	-	-	694
Interest revenue	71	-	-	71
Total revenue	<u>113,617</u>	<u>18,544</u>	<u>-</u>	<u>132,161</u>
Segment EBITDA	<u>39,038</u>	<u>2,350</u>	<u>-</u>	<u>41,388</u>
Share-based payment expense				(392)
Transaction costs				(273)
Corporate costs				(4,530)
Depreciation and amortisation expenses				(5,625)
Interest revenue				71
Interest expense				(3,745)
Interest on other financial liability - non-cash interest				(564)
Amortisation of bank facility fees				(106)
Profit before income tax expense				<u>26,224</u>
Income tax expense				(7,454)
Profit after income tax expense				<u>18,770</u>

Note 2. Operating segments (continued)

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
Other revenue	470	-	-	470
Interest revenue	133	1	16	150
Total revenue	<u>104,022</u>	<u>10,450</u>	<u>16</u>	<u>114,488</u>
Segment EBITDA	<u>36,765</u>	<u>1,189</u>	<u>-</u>	<u>37,954</u>
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				(3,562)
Interest on other financial liability - non-cash interest				(371)
Amortisation of bank facility fees				(799)
Profit before income tax expense				<u>23,682</u>
Income tax expense				(6,501)
Profit after income tax expense				<u>17,181</u>

Note 3. Revenue

	Consolidated	
	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
<i>Sales revenue</i>		
Rendering of services	<u>131,396</u>	<u>113,868</u>
<i>Other revenue</i>		
Interest	71	150
Rent	694	470
	<u>765</u>	<u>620</u>
Revenue	<u><u>132,161</u></u>	<u><u>114,488</u></u>

Note 4. Other income

	Consolidated	
	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
Net gain on acquisition of associate	-	300
Other income	<u>406</u>	<u>297</u>
Other income	<u><u>406</u></u>	<u><u>597</u></u>

Note 5. Expenses

Consolidated
31 Dec 2015 31 Dec 2014
\$'000 \$'000

Profit before income tax includes the following specific expenses:

Finance costs

Interest and finance charges paid/payable	3,745	3,562
Interest on other financial liabilities - non-cash interest	564	371
Amortisation of bank facility fees	106	799
	4,415	4,732

Share-based payments expense

Share-based payments expense - fertility specialists	166	163
Share-based payments expense - employee benefits	226	247
	392	410

Note 6. Non-current liabilities - other financial liability

Consolidated
31 Dec 2015 30 Jun 2015
\$'000 \$'000

Other financial liability	25,749	24,705
	25,749	24,705

The other financial liability represents the fair value of the put options held by the non-controlling interest in Sims Clinic Limited and TAS IVF Pty Limited.

Note 7. Equity - issued capital

	Consolidated			
	31 Dec 2015	30 Jun 2015	31 Dec 2015	30 Jun 2015
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	79,935,938	79,935,938	238,690	238,429
	79,935,938	79,935,938	238,690	238,429

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2015	79,935,938		238,429
Settlement of partly paid shares		-	\$0.00	261
Balance	31 December 2015	79,935,938		238,690
		79,935,938		238,690

Note 8. Equity - reserves

	Consolidated	
	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Foreign currency reserve	325	(275)
Hedging reserve - cash flow hedges	(755)	(476)
Share-based payments reserve	11,979	11,587
Put option business combination reserve	(23,825)	(23,825)
	<u>(12,276)</u>	<u>(12,989)</u>

Note 9. Equity - dividends

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

	Consolidated	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Final dividend of 14.0 cents (31 December 2014: 14.0 cents) per fully paid share paid in October 2015	<u>11,191</u>	<u>11,038</u>

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 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	1,078	-	1,078
Other financial liability	-	-	25,749	25,749
Total liabilities	<u>-</u>	<u>1,078</u>	<u>25,749</u>	<u>26,827</u>
Consolidated - 30 Jun 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial liabilities	-	676	-	676
Other financial liability	-	-	24,705	24,705
Total liabilities	<u>-</u>	<u>676</u>	<u>24,705</u>	<u>25,381</u>

The carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

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

Unquoted investments have been valued using a discounted cash flow model.

Note 10. Fair value measurement (continued)

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 2015	24,705	24,705
Foreign exchange impact	480	480
Interest on unwinding	564	564
	<hr/>	<hr/>
Balance at 31 December 2015	25,749	25,749
	<hr/> <hr/>	<hr/> <hr/>

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 2015: \$25,000). 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 \$3,927,000 (30 June 2015: \$3,430,000) 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 3.5 years (30 June 2015: 4 years).

Note 12. Business combinations

Acquisition of the business of Independent Diagnostic Services Pty Limited

On 14 September 2015, Virtus Health Limited formed a new company, Virtus Health Specialist Diagnostics Pty Limited, to acquire the business and assets of Independent Diagnostic Services Pty Limited. The consideration transferred amounted to \$3,455,000. The values identified in relation to the acquisition of the business are provisional as at 31 December 2015.

Details of the acquisition are as follows:

	Fair value \$'000
Trade receivables and other receivables	82
Plant and equipment	37
Employee benefits	(151)
Lease make good provision	(43)
Lease incentive provision	(3)
	<hr/>
Net liabilities acquired	(78)
Goodwill	3,533
	<hr/>
Acquisition-date fair value of the total consideration transferred	3,455
	<hr/> <hr/>
Representing:	
Cash paid or payable to vendor	3,455
	<hr/> <hr/>
Acquisition costs expensed to profit or loss	154
	<hr/> <hr/>

Note 12. Business combinations (continued)

The acquired business contributed revenue and other income of \$752,000 and loss before tax of \$3,000 (excluding the cost of financing the transaction) to the consolidated entity for the period from 14 September 2015 to 31 December 2015. If the acquisition had occurred on 1 July 2015, the full half year contribution would have been revenues of \$1,588,000 and profit before tax of \$258,000 excluding any additional financing costs. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 01 July 2015, together with the consequential tax effects.

The goodwill is allocated to the business of Independent Diagnostics Services Pty Limited's strong position in trading in the diagnostics market, the workforce and synergies expected to arise after the consolidated entity's acquisition of the new business. None of the goodwill is expected to be deductible for tax purposes.

Acquisition of Tas IVF Pty Limited

Since the date of acquisition there has been a working capital adjustment during the half year ended 31 December 2015 which has resulted in an increase to goodwill of \$332,000.

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 14. Earnings per share

	Consolidated	
	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
Profit after income tax	18,770	17,181
Non-controlling interest	(906)	(486)
	<hr/>	<hr/>
Profit after income tax attributable to the owners of Virtus Health Limited	17,864	16,695
Add: interest savings on conversion of options	77	63
	<hr/>	<hr/>
Profit after income tax attributable to the owners of Virtus Health Limited used in calculating diluted earnings per share	17,941	16,758
	<hr/> <hr/>	<hr/> <hr/>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	79,935,938	79,758,294
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	1,126,140	1,139,660
	<hr/>	<hr/>
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,062,078	80,897,954
	<hr/> <hr/>	<hr/> <hr/>
	Cents	Cents
Basic earnings per share	22.35	20.93
Diluted earnings per share	22.13	20.71

In the directors' opinion:

- the attached financial statements and notes 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 give a true and fair view of the consolidated entity's financial position as at 31 December 2015 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

23 February 2016
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 2015, 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 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 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 half-year 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 2015 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 2015 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*.

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Eddie Wilkie

Eddie Wilkie
Partner

Sydney
23 February 2016