

ASX Release

22 August 2017

LifeHealthcare Group Limited Appendix 4E

ASX Listing Rule 4.3A

Preliminary Financial Report for Year Ended 30 June 2017

Results for Announcement to the Market

| | 30 June 2017 \$m | 30 June 2016 \$m | Movement \$m | Movement % |
|--|------------------------|------------------------|-----------------|---------------|
| Revenue | 126.7 | 114.8 | 11.9 | 10.4% |
| Profit after income tax expense | 7.1 | 7.6 | (0.4) | (5.3%) |
| Net profit attributable to security holders | 7.6 | 5.4 | 2.2 | 40.7% |

Dividend Distributions

| | 30 June 2017 cents | 30 June 2016 cents |
|-------------------------------|--------------------------|--------------------------|
| Final dividend distribution | 7.50 | 7.50 |
| Interim dividend distribution | 6.25 | 5.00 |

- Total dividend distributions by LifeHealthcare Group Limited for the year ended 30 June 2017 were 13.75 cents per security (2016: 12.5 cents).
- Interim dividend distribution record date of 6 March 2017 and was paid on 22 March 2017. This dividend was unfranked.
- Final dividend distribution declared on 22 August 2017 with record date of 1 September 2017 and approximate payment date of 22 September 2017. This dividend is fully franked.
- A dividend reinvestment plan was in operation for the interim dividend paid on 22 March 2017 and the dividend reinvestment plan remains active for the final dividend declared on 22 August 2017.

> Not your typical multinational

Net Tangible Asset Backing

| | 30 June 2017 cents | 30 June 2016 Cents (Restated) |
|----------------------------------|--------------------------|--|
| Net tangible assets per security | 47 | 37 |

Audited Annual Financial Report

The audited annual financial report of LifeHealthcare Group Limited for the year ended 30 June 2017 is attached and the annual report is available on 22 August 2017.

Annual General Meeting

The Annual General Meeting of LifeHealthcare Group Limited will be held at 1pm AEST on Thursday 26th October 2017 at LifeHealthcare Group Limited's head office, Level 8 15 Talavera Road, North Ryde, NSW.

Signed:



Dean Taylor
CFO & Company Secretary

For further information contact:

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LifeHealthcare Group Limited

ABN 72 166 525 186

Annual Financial Report

For the Year Ended 30 June 2017

LifeHealthcare Group Limited

ABN 72 166 525 186

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The registered office of the company is:

LifeHealthcare Group Limited
C/ TMF Corporate Services (Aust) Pty Limited
Level 16, 201 Elizabeth Street
Sydney NSW 2000

The principal place of business is:

LifeHealthcare Group Limited
Level 8, 15 Talavera Road
North Ryde NSW 2113

Directors' Report

30 June 2017

The Directors present their report, together with the financial statements of the Group, being LifeHealthcare Group Limited (the Group) and its controlled entities, for the financial year ended 30 June 2017.

GENERAL INFORMATION

Information on Directors

The names, qualifications, experience and special responsibilities of each person who has been a Director during the year and to the date of this report are:

Bill Best

| | |
|---|---|
| Qualifications | B Comm, LLB, M Comm |
| Experience | Independent Non-Executive Director. Former Executive Director at Macquarie Group Limited. Involved in investment banking and stockbroking for more than 30 years. |
| Interest in shares and options | Ordinary shares - LifeHealthcare Group Limited: 200,000. Options: Nil. |
| Special responsibilities | Chair of the Board Member of Audit & Risk Committee |
| Other current directorships in listed entities | Nil |
| Other directorships in listed entities held in the previous three years | Nil |

Matthew Muscio

| | |
|---|--|
| Qualifications | B Bus, GD-BA |
| Experience | Chief Executive Officer since 2015 and prior to that Chief Operating Officer of LifeHealthcare since 2013. Approximately 18 years of medical device industry experience. |
| Interest in shares and options | Ordinary shares - LifeHealthcare Group Limited: 28,100. Options: 1,419,896. |
| Special responsibilities | Chief Executive Officer Member of Audit & Risk Committee Member of Remuneration & Nominations Committee |
| Other current directorships in listed entities | Nil |
| Other directorships in listed entities held in the previous three years | Nil |

Directors' Report

30 June 2017

GENERAL INFORMATION

Information on Directors

John Hickey

| | |
|---|---|
| Qualifications | B Bus |
| Experience | Independent Non Executive Director. Involved in healthcare sector throughout Australasia for more than 25 years. Formerly CFO of Healthscope, Symbion Health and Affinity Health. |
| Interest in shares and options | Ordinary shares - LifeHealthcare Group Limited: 82,685 Options: Nil |
| Special responsibilities | Chair of Audit & Risk Committee |
| Other current directorships in listed entities | Nil |
| Other directorships in listed entities held in the previous three years | Nil |

Donna Staunton

| | |
|---|---|
| Qualifications | BA, LLB |
| Experience | Independent Non-Executive Director. Managing Director of the Strategic Counsel. A background in law, with more than 20 years of corporate and government experience specialising in healthcare. |
| Interest in shares and options | Ordinary shares - LifeHealthcare Group Limited: 5,000 Options: Nil |
| Special responsibilities | Chair of Remuneration & Nominations Committee Member of Audit & Risk Committee |
| Other current directorships in listed entities | Nil |
| Other directorships in listed entities held in the previous three years | Nil |

Heith Mackay-Cruise

| | |
|---|--|
| Qualifications | B Ec, FAICD |
| Experience | Extensive FMCG, media, education and health sector experience with over 25 years of corporate experience and as an independent Non-Executive Director. |
| Interest in shares and options | Ordinary shares - LifeHealthcare Group Limited: 13,337. Options: Nil. |
| Special responsibilities | Member of Audit & Risk Committee Member of Remuneration & Nominations Committee |
| Other current directorships in listed entities | One |
| Other directorships in listed entities held in the previous three years | Nil |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Directors' Report

30 June 2017

GENERAL INFORMATION

Information on Directors

Company Secretary

Dean Taylor is the Company Secretary having been appointed in 2015. Dean has over 30 years' experience in senior commercial finance roles and is a Chartered Accountant and Fellow of the Governance Institute of Australia. Prior to LifeHealthcare he was the CFO/COO of Bendon Limited and CFO of Jeminex Limited.

Meetings of Directors

During the financial year, twenty-four meetings of Directors (including committees of Directors) were held. Attendances by each director during the year were as follows:

| | Directors' Meetings | | Audit & Risk Committee | | Remuneration & Nominations Committee | |
|---------------------|----------------------------|----------------------------------|-----------------------------------|----------------------------------|---|----------------------------------|
| | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend |
| Bill Best | 12 | 12 | 5 | 5 | - | - |
| Matthew Muscio | 12 | 12 | 5 | 5 | 7 | 7 |
| John Hickey | 12 | 12 | 5 | 5 | - | - |
| Donna Staunton | 11 | 12 | 5 | 5 | 7 | 7 |
| Heith Mackay-Cruise | 12 | 12 | 5 | 5 | 4 | 4 |

Directors' Report

30 June 2017

REVIEW OF OPERATIONS

The Board presents the 2017 Operating and Financial Review, which has been prepared in order to provide shareholders with a clear and concise overview of the Group's operations, financial position, business strategies and prospects.

The review also provides contextual information, including the impact of key events that have occurred during 2017 and material business risks faced by the business so that shareholders can make an informed assessment of the results and prospects of the Group.

Principal Activities

LifeHealthcare is a leading independent provider of healthcare solutions in Australia and New Zealand across clinically specialised therapeutic channels bringing Australian and New Zealand healthcare professionals innovative medical devices by partnering with world class companies who share the vision of innovation and making a real difference to people's lives.

Key to this is the ability to partner with suppliers to provide innovative and differentiated medical devices, the ability to attract highly skilled and knowledgeable staff in the industry and working with key opinion leaders and specialised surgeons to develop solutions that enhance lives.

LifeHealthcare deploys these key competencies across a number of product categories within the business, as follows:

a) Implantable Devices

Implants are surgically implanted devices to replace, support or enhance the existing biological structure of the body, for example screws for spine fixation and total joint prostheses such as hips and knees.

Implantable devices involve a high degree of technical skill and expertise as the product is implanted into patients during a surgical procedure. The surgeon undertaking the procedure is the primary user of the device and the key decision maker in the choice of the device.

Due to the complex nature of implantable devices, a high degree of clinical support is required to ensure optimal application of the device, including attendance in the operating theatre by LifeHealthcare staff. The services LifeHealthcare provide alongside the device, including clinical education, are highly valued by the surgeon and are an integral part of LifeHealthcare's competitive positioning and customer offering.

b) Non-Implantable Devices

Non-Implantable devices are used or consumed during surgical procedures, for example re-usable surgical instruments and suction systems and do not remain within the body of the patient on discharge.

These differ from implantable devices in that purchasing decisions are not always made at the individual surgeon or clinician level, but rather at a department or hospital wide level. Products in this category are often still of a technical and clinical nature and require high levels of clinical support and education from LifeHealthcare.

c) Capital Equipment

Capital equipment has an enduring nature and is used clinically either in a hospital operating or outpatient clinical setting, for example ultrasound machines, specialised operating theatre tables, spinal robotic systems or mobile CT scanners.

The capital products LifeHealthcare sells are highly technical in nature and the interface between the user and the equipment can have a bearing on the outcome of the use of the equipment in clinical settings. As with LifeHealthcare's other product categories, the sale of capital equipment often requires a high degree of technical support from LifeHealthcare staff.

Directors' Report

30 June 2017

REVIEW OF OPERATIONS

Key Developments

There have been a number of key developments in fiscal year 2017 within LifeHealthcare's underlying strategic priorities as detailed in last year's report including:

Organisational Efficiency and Effectiveness:

- **Automation:** LifeHealthcare continues to drive towards best practice in supply chain management and has invested further in automated inventory management solutions to improve working capital optimisation and inventory security, including the installation of a third inventory carousel and conveyor technology.
- **Optimised Inventory Management:** The introduction of an improved Sales and Operations Planning process (S&OP) and increased investment in demand planning has resulted in improved inventory management during the fiscal year including improved forecasting, quality of stock holding of fast moving products, reduction in slow moving stock items and pro-active management of overall product lifecycle.
- **People and Culture:** Continued focus on harnessing and enhancing workplace culture with two culture surveys undertaken during the year to assist in identifying both strengths and areas of improvement to ensure strong engagement with its workforce. The LifeHealthcare intranet will be launched in fiscal year 2018, providing further opportunity for engagement and strengthening connectivity.

Channel Optimisation:

- **Expansion of New Active Surgeons:** Active surgeon growth in fiscal year 2017 was 11.4% with 14 new active surgeons, driving double digit implant revenue growth. LifeHealthcare remains focused on developing young clinicians through professional education and new product development initiatives.
- **Market Leader in 3D Printed Spinal Implants:** LifeHealthcare continues to be the market leader in 3D printed interbody spine devices and has assisted Australian surgeons to perform 21 patient specific custom procedures for limb salvage in lower limb orthopaedics in fiscal year 2017.
- **Strong Market Penetration in Minimally Invasive Surgery in Spine:** The Everest XT launched in fiscal year 2016 for use in minimally invasive surgery enabling progressive percutaneous techniques in Spine has grown 200% in fiscal year 2017.
- **Spinal Robotics:** LifeHealthcare has placed three spinal robotic systems in fiscal year 2017 bringing the installed base in Australia to seven. The placement of one of these spinal robotic units along with the BodyTom intraoperative mobile full body CT scanner into the Epworth Hospital in Victoria is the world's second site providing a 'scan and plan' combined robotics and intraoperative CT workflow.
- **Entrance into Tumour Aspiration Market:** LifeHealthcare has entered the tumour aspiration market with the first sales of the Sonostar system, an advanced ultrasonic system used for soft tissue aspiration and removal of osseous structures in neurosurgery, general surgery, gynaecological and orthopaedic procedures.
- **Continued Growth in Complex Lower Limb Orthopaedics:** LifeHealthcare's Orthopaedic division continued to realise strong growth across complex revision, limb lengthening and limb salvage applications, with particularly strong growth in its synthetic Biologics offering.
- **Increased Portfolio Offering in Interventional Cardiology:** Following the launch of the instant wave-free ratio (iFR) as an extension to its (Fractional Flow Reserve) diagnostic technology offering, LifeHealthcare has launched the Broncus Lungpoint navigation system providing image guidance for Bronchoscopy with real-time path navigation within the lungs for lung biopsy and other diagnosis and treatment procedures.

Directors' Report

30 June 2017

REVIEW OF OPERATIONS

Key Developments

Biologic Growth:

- Penetration of synthetic biologics market: LifeHealthcare continued penetration of its synthetic biologics portfolio driving share gains with Cerapedics' peptide enhanced bone graft material iFactor in Spine and Orthopaedics
- Launch of Allograft Biologics: LifeHealthcare has had a successful launch of its allograft biologics offering into New Zealand, which has a different regulatory approval pathway than Australia.

Addressing Healthcare Economics:

- Further Advances in Connectivity Solutions with establishment of a reference site for QPath at Royal North Shore Hospital in NSW, providing ultrasound workflow solutions and connectivity.
- LifeHealthcare has increased its imaging presence with the placement of the CereTom mobile cranial CT scanner into Australia's first mobile stroke ambulance in Victoria which will be used to facilitate immediate treatment at the roadside for patients with an Ischemic stroke. This treatment has significant healthcare economic benefits reducing the amount of treatment and rehabilitation costs of Ischemic stroke sufferers.

Operating Result Summary FY 2017 Operating Results Summary

| \$million | (Restated*) | | % Change | Previously Reported |
|---|--------------|--------------|---------------|---------------------|
| | 30/6/17 | 30/6/16 | | 30/6/16 |
| Revenue | 126.7 | 114.8 | 10.4% | 114.8 |
| Underlying EBITDA | 20.4 | 19.5 | 4.6% | 19.3 |
| Transaction expenses | (0.7) | (0.3) | | (0.3) |
| Statutory EBITDA | 19.7 | 19.2 | 3.0% | 19.0 |
| Depreciation | (4.7) | (3.8) | | (3.8) |
| Amortisation of software costs | (0.1) | (0.1) | | (0.1) |
| Amortisation of identifiable intangibles | (1.2) | (1.6) | | (1.6) |
| Share of associate | (0.4) | 0.0 | | 0.0 |
| Statutory EBIT | 13.3 | 13.7 | (2.5%) | 13.6 |
| Net interest | (2.4) | (2.3) | | (2.3) |
| Income tax expense | (3.8) | (3.8) | | (3.7) |
| Profit for the year | 7.1 | 7.6 | (5.5%) | 7.5 |
| Underlying NPATA | 9.0 | 8.9 | 1.4% | 8.8 |
| Earnings per Share (Basic) (cents) | | | | |
| Statutory NPAT | 16.7 | 17.8 | (6.2%) | 17.6 |
| Underlying NPATA | 21.1 | 20.9 | 1.0% | 20.8 |

* Refer note 25 for details.

Underlying NPATA and EBITDA excludes amortisation of specifically identifiable intangibles associated with acquisitions, transaction expenses and one-off impairment of investment in share of associate. The company believes that presenting underlying EBITDA, NPATA and EPS provides a better understanding of the financial performance on a prior year comparative basis.

The fiscal year 2016 accounts have been restated due to a change in accounting policy relating to in-bound freight costs included in the cost of inventory which has increased EBITDA by \$0.1 million from that reported in the 2016 annual report (refer Note 25).

Directors' Report

30 June 2017

REVIEW OF OPERATIONS

Operating Results

(FY17 performance in comparison to restated FY16)

Sales revenue of \$126.7 million (2016 \$114.8 million) was up by 10.4% on the prior year. The medical devices market experienced stable growth throughout the year, this coupled with a full year impact of the acquisition and integration of Medical Vision Australia Cardiology and Thoracic Pty Ltd on 2 October 2015, product introductions and new customers, resulted in LifeHealthcare achieving above market growth in key segments of the markets in which it operates.

LifeHealthcare launched 10 major new products in fiscal year 2017 delivering more than \$2.4 million in their initial launch year which contributed to this revenue growth of \$11.9 million (10.4%).

As expected the deterioration of the AUD against the USD had an impact on margins and average cost price of inventory. This foreign exchange impact was partially offset by margin management strategies with suppliers who assisted with price reductions and extended terms. Prudent inventory provisioning for slow moving stock was made to better align with improved product life-cycle management which also impacted gross margin.

Operating expenses were managed at levels below revenue growth rates, achieving the Company's objective to obtain cost leverage from revenue growth.

Underlying EBITDA of \$20.4 million (2016 \$19.5 million) was up by 4.6% on the prior year. Underlying EBITDA margin at 16.1% was below 2016 at 16.9% largely due to the impact of foreign exchange deterioration on gross margin.

Underlying NPATA of \$9.0 million (2016 \$8.9 million) was up by 1.1% on the prior year. Underlying NPATA was calculated after adding back acquisition, transaction and amortisation costs and one off costs associated with termination of Electrocore JV.

Underlying Earnings per share (EPS) grew 1.0% to 21.1 cents per ordinary share. EPS was impacted from a depreciation increase on prior year as a result of additional investment in instrument sets required to generate revenue growth. EPS was also impacted by increased shares issued during the year from exercised options and the dividend reinvestment plan.

Financing and Cash Flows

LifeHealthcare's net debt position of \$28.3 million decreased from the position at 30 June 2016 of \$32.6 million due to the repayment of bank debt of \$3.0 million and closing cash position of \$5.5 million. This resulted in a debt leverage of 1.39x, compared to prior year of 1.67x. This improvement was a result of higher EBITDA, reduced debt from repayments and higher cash at end of year.

Net Working Capital improved during the year relative to sales to 31.0% (2016: 32.2%), despite increases in average cost of goods from foreign exchange impacts.

Net cashflow from operating activities (after tax and finance costs) was \$15.9 million with a conversion rate from underlying EBITDA of 78% in financial year 2017, an increase from the prior year of \$10.1 million which had a cash conversion rate of 52%. This improved cash conversion was due to improved working capital management throughout the year.

LifeHealthcare's facilities amounted to \$42 million, including an \$8 million working capital facility available, of which \$34.7 million was drawn, \$5.5 million cash on hand, providing headroom of \$12.8 million as at financial year-end.

Directors' Report

30 June 2017

DIVIDENDS

Since the end of the financial year, the Directors have recommended the payment of a final ordinary dividend of 7.5 cents (2016: 7.5 cents). The final dividend will be 100% franked at the corporate tax rate of 30%.

The final dividend for the year ended 30 June 2016 of 7.5 cents per fully paid ordinary share, totaling \$3,190,325 was paid on 25 September 2016, the dividend was unfranked.

An interim ordinary dividend of 6.25 cents per fully paid ordinary share, totaling \$2,668,302 was paid on 22 March 2017, the dividend was unfranked. The activation of the Dividend Reinvestment Plan resulted in the issue of 310,612 fully paid ordinary shares.

| | 2017 Dividend per cent | 2017 Dividend Amount | 2016 Dividend per cent | 2016 Dividend amount |
|-----------------------------|------------------------------|----------------------------|------------------------------|----------------------------|
| | cents | \$'000 | cents | \$'000 |
| Final dividend paid | 7.50 | 3,191 | 7.5 | 3,190 |
| Interim dividend paid | 6.25 | 2,668 | 5.0 | 2,127 |
| Total dividends paid | 13.75 | 5,859 | 12.5 | 5,317 |

Dividend Reinvestment Plan

On the 21 February 2017, the Group activated the Dividend Reinvestment Plan ("DRP") for the interim dividend with a discount of 2.5%. The DRP was activated to assist with supporting potential growth opportunities and to ensure the company has the flexibility and the opportunity to take up these opportunities should they eventuate.

MATERIAL BUSINESS RISKS

Risk management is carried out in accordance with policies approved by the Board as described in the Corporate Governance statement. LifeHealthcare faces a variety of material risks, including but not limited to strategic, operational, financial and regulatory risks. Management have undertaken a review and identified a number of key risks (outlined below) across the business that will be monitored by the Board.

- **Key Supplier Arrangements:** The loss of key supply arrangements due to industry consolidation or other factors remains a key business risk. LifeHealthcare actively seeks to mitigate this by developing partnerships with key suppliers through product innovation, developing new supplier relationships across multiple products and maintaining competitive contractual terms with suppliers.
- **Inventory Life-cycle:** LifeHealthcare derives revenue from a range of key product lines and there is risk around the end of the life cycle of key product lines without a pipeline of new products to supplement lost revenue. LifeHealthcare actively manages the lifecycle of key products and maintains a strong pipeline of new products.
- **Key Staff Retention:** LifeHealthcare's future success depends, to a significant extent, upon the performance and expertise of key staff and the ability to retain key sales representatives. LifeHealthcare seeks to maintain a strong culture and competitive remuneration as part of its retention strategies.
- **Foreign Exchange:** Foreign exchange rate movements remain a key risk to the business where LifeHealthcare buys the majority of products from US and European suppliers and receives revenue in Australian dollars. This is mitigated through foreign currency hedging. LifeHealthcare's policy is to hedge at least 90% of its next 12 months expected future USD and € exposure on a rolling monthly basis. In combination with its average inventory holding of ~7 months, at any point in time, this hedging policy means LifeHealthcare has minimal exposure to movements in the USD and € FX rate for a period of ~18 months and gives LifeHealthcare time to seek an adjustment in margin through a combination of its selling and buy prices. In the event of sustained movements in exchange rates, however, there can be no certainty that it would be successful in doing so. LifeHealthcare also has agreements in place with certain suppliers to share the impact of foreign exchange movements.

Directors' Report

30 June 2017

MATERIAL BUSINESS RISKS

- **Regulatory Risks:** Regulatory risks, such as compliance with TGA (Therapeutic Goods Association) registration requirements and the PLAC (Prostheses List Advisory Committee) reimbursement regime, continue to be actively managed by LifeHealthcare's Regulatory Affairs team and senior management working closely with supply partners.
- **Government Reform:** Government reforms in the healthcare industry, in particular the Private Health Insurance review announced in fiscal year 2016 may impact LifeHealthcare. LifeHealthcare continues to work with its member body, the Medical Technology Association of Australia in providing all necessary information required as part of the review as well as actively engaging with government to ensure the impacts to Australian Small and Medium Enterprises are fully understood and taken into consideration as a part of this process.

BUSINESS STRATEGY

LifeHealthcare's purpose is to connect Australian and New Zealand healthcare professionals with innovative and tailored health solutions to make a real difference to people's lives. LifeHealthcare has four strategic priorities which aim to strengthen this purpose and enable sustainable growth.

- **Organisational Efficiency and Effectiveness:** LifeHealthcare will drive automation and improvements to systems and processes to deliver increased efficiencies providing leverage on operating expenses and enhancing business model robustness. An example of some of the initiatives undertaken in fiscal year 2017 include the purchase of a third inventory carousel and conveyor system in order to further automate inventory management thereby improving working capital and inventory security. In addition, demand planning capability was strengthened and a Sales & Operation Planning (S&OP) process was established in order to drive improved forecasting and inventory management.
- **Channel Optimisation:** LifeHealthcare will increase market share in existing therapeutic divisions and provide greater breadth of offering in these divisions. LifeHealthcare leverages its strong existing market position to further penetrate the market through new product introductions such as the introduction of the QPath ultrasound workflow and ICT solution in Point of Care ultrasound, entry into the tumour aspiration market within mainly neurosurgical applications, the launch of the Barricaid spinal implant that treats disc herniation which can cause sciatica and lower back pain and the launch of the Broncus Lungpoint navigation system providing image guidance for Bronchoscopy.
- **Biologics Growth:** LifeHealthcare has developed a three phased approach to expand into emerging Biologics technology. The first phase is to expand LifeHealthcare's osteobiologics presence into human tissue sub segments of spine and orthopaedics with an allograft portfolio. Phase two is to enter the wound healing, sports medicine and soft tissue markets followed by phase three of expanding into advanced regenerative biologics including bio fabrication. LifeHealthcare is progressing well against this plan launching its allograft Biologics offering in New Zealand and the regulatory approval process in Australia via the TGA is underway.
- **Develop Solutions to Address Changing Needs of Healthcare:** LifeHealthcare will develop solutions that address healthcare needs including healthcare economics, connectivity, pre and post-operative care, as examples. Some examples of the progress achieved in fiscal year 2017 include increasing the connectivity offering with the QPath workflow solutions offering in Point of Care Ultrasound, development of the distal femoral replacement program in Orthopaedics addressing healthcare economics by reducing length of hospital stay and return to functionality and working with Ambulance Victoria and the Victorian government to commission Australia's first mobile stroke ambulance treating stroke victims at the roadside thereby reducing treatment and rehabilitation costs.

Directors' Report

30 June 2017

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no other significant changes in the state of affairs of LifeHealthcare Group Limited that occurred during the year under review, that were not otherwise disclosed in this report or the financial statements.

EVENTS AFTER REPORTING DATE

Acquisition of Oceania Orthopaedics Pty Ltd

On the 31 July 2017, a wholly owned subsidiary LifeHealthcare Distribution Pty Ltd entered an agreement to acquire all of the issued share capital of Oceania Orthopaedics Pty Ltd ("Oceania"). The acquisition of Oceania by LifeHealthcare was completed on the same day.

On completion, LifeHealthcare entered a 10-year distribution agreement with Implantcast GmbH with effect from the acquisition date of Oceania. Implantcast is a highly specialised orthopaedics innovator of primary, revision and tumor prosthesis with leading capabilities in implant coating and patient specific solutions.

The acquisition of Oceania and long term partnership with Implantcast complements LifeHealthcare's existing orthopaedics offering and strengthens LifeHealthcare's share in the complex lower limb market segment to an estimated number two position.

The purchase price will involve:

- A base payment of \$9.7m calculated by reference to Oceania's EBITDA for the fiscal year 2017 and the net cash/debt held by the business at 31 July 2017;
- The base payment has been funded 25% from LifeHealthcare scrip of 1,115,716 ordinary shares (escrowed for 18 months until 31 January 2019) and 75% from ANZ debt facilities,
- An earnout payment based on the financial performance of select products and customers in the subsequent 18-month period ending 31 January 2019 estimated to be approximately \$2.0m with the potential earn-out to be funded from ANZ debt facilities.

Key highlights of the acquisition:

- The acquisition takes LifeHealthcare's market share in the \$45 million per annum (and growing in the mid to high single digit range) complex lower limb orthopaedics market to number two;
- It strengthens the platform for further organic and inorganic expansion into other sub segments of the orthopaedics market including primary arthroplasty, foot and ankle and upper limb;
- The acquisition is marginally EPS accretive on an underlying NPATA basis in fiscal year 2018 due to timing of product transition for existing customers and realisation of synergies, increasing to mid to high single digit accretion thereafter.

Refinancing of banking Facilities

On the 31 July 2017, LifeHealthcare refinanced all bank debt facilities with its long-term banking partner, ANZ. The debt facilities have been refinanced at lower margins providing improved rates and fees, improved reporting covenants and the facilities extending for a further 3 years maturing in 2020.

Final Dividend

On the 22 August 2017, the Directors declared the payment of a fully franked final dividend of 7.5 cents per fully paid ordinary share.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' Report

30 June 2017

FUTURE DEVELOPMENTS AND RESULTS

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report.

ENVIRONMENTAL ISSUES

LifeHealthcare's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year, LifeHealthcare Group Limited paid a premium of \$82,381 (2016: \$100,891) to insure the Directors and Secretaries of the Company and its Australian and New Zealand based controlled entities, and the General Managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain an advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

UNISSUED SHARES AND OPTIONS

At the date of this report, the unissued ordinary shares of LifeHealthcare Group Limited under options totaled 2,936,213 (2016: 1,706,228) detailed as follows:

| Grant Date | Date of Expiry | Exercise Price | Number of ordinary shares under option |
|------------------|------------------|----------------|--|
| 28 June 2013 | 28 June 2018 | \$1.54 | 535,247 |
| 5 December 2013 | 5 December 2018 | \$2.00 | 155,144 |
| 30 June 2014 | 30 June 2019 | \$2.25 | 107,988 |
| 30 June 2015 | 30 June 2020 | \$3.42 | 406,666 |
| 28 October 2015 | 28 October 2020 | \$3.23 | 312,706 |
| 25 October 2016 | 25 October 2021 | \$1.99 | 598,301 |
| 21 December 2016 | 21 December 2021 | \$1.99 | 715,937 |
| 21 December 2016 | 21 December 2020 | \$0.00* | 104,224 |

* Performance Rights over ordinary shares and subject to performance conditions.

Option holders do not have any rights to participate in any issues of shares or other interests in the Group or any other entity. No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

For details of options issued to Directors and other key management personnel as remuneration, refer to the Remuneration Report.

LifeHealthcare established the LifeHealthcare Group Limited Employee Option Plan (formerly the LifeHealthcare Pty Limited Employee Option Plan) on 5 February 2009. The Employee Option Plan is designed to provide long-term incentives for the CEO, KMP and senior managers to deliver long-term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Directors' Report

30 June 2017

The following ordinary shares were issued during the year on the exercise of the options granted under the Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

| Date Options granted | Exercise Price | Number of Shares Issued |
|----------------------|----------------|-------------------------|
| 26 June 2013 | \$ 1.54 | 155,144 |

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit and Risk Committee, are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2017:

| | 2017 | 2016 |
|-------------------|--------|--------|
| | \$ | \$ |
| Taxation services | 38,290 | 11,000 |

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 30 June 2017 has been received and can be found on page 26 of the financial report.

ASIC CORPORATIONS INSTRUMENT 2016/191 ROUNDING OF AMOUNTS

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Directors' Report

30 June 2017

Remuneration report (audited)

The Directors present the LifeHealthcare Group Limited remuneration report outlining key aspects of our remuneration policy and framework and remuneration awarded this year.

The report is structured as follows:

- 1) Key Management Personnel (KMP)
- 2) Remuneration Policy & Framework
- 3) Remuneration expenses for KMP
- 4) Contractual arrangements for KMP
- 5) Non-Executive (NED) Remuneration Arrangements
- 6) Other statutory information

1) Key management personnel covered in this report

The table below lists the executives of the Company whose remuneration details are outlined in this Remuneration Report. These executives, together with the Non-Executive Directors, are defined as Key Management Personnel (KMP) under accounting standards.

KMP are those persons having authority for planning, directing and controlling the major activities of the Company and the Group, directly, or indirectly of the company. In this report, KMP refers to the KMP other than the Non-Executive Directors.

Non-Executive Directors have oversight of the strategic direction of the Company but have no direct involvement in the day-to-day management of the business.

Key Management Personnel at 30 June 2017

| | | |
|--------------------------------|---------------------|---|
| Non-Executive Directors | Bill Best | Chair (independent, Non-Executive) |
| | John Hickey | Director (independent, Non-Executive) |
| | Donna Staunton | Director (independent, Non-Executive) |
| | Heith Mackay-Cruise | Director (independent, Non-Executive) |
| Executive Director | Matt Muscio | Chief Executive Officer |
| Other Executive KMP | Dean Taylor | Chief Financial Officer / Company Secretary |

2) Remuneration policy and link to performance

2.1 Remuneration Framework

LifeHealthcare's remuneration framework is designed to attract, motivate, reward and retain executives through a remuneration approach that is globally relevant, competitive, aligns with shareholder interests and has a high perceived value.

It also provides a combination of incentives intended to drive performance against the Company's short and longer term objectives. The remuneration framework for each KMP comprises the following components:

- Fixed Annual Remuneration (FAR): salary and other benefits not subject to performance conditions;
- Short-Term Incentive (STI): an 'at risk' component, awarded on the achievement of performance conditions over a 12-month period that comprises a cash component only; and
- Long-Term Incentive (LTI): an 'at risk' component, awarded on the achievement of performance conditions over a three-year period that comprises an equity component only.

Directors' Report

30 June 2017

Remuneration report (audited)

2) Remuneration policy and link to performance

2.2 Remuneration Governance

The Remuneration and Nominations Committee is established to assist and advise the board of directors to fulfill its responsibilities to the members of the Company on matters relating to compensation, bonuses, incentives and remuneration of the Directors, Senior Executives, Executive Leadership Team and Employees.

The Committee includes at least three members, made up of at least two (2) non-executive directors of the board and the CEO. Donna Staunton is the Non-Executive Chair of the Remuneration & Nominations Committee. A quorum is at least two committee members, at least one of which must be a Non-Executive Director and the Non-Executive Committee Chair. The Company Secretary undertakes the duties of secretariat.

In particular, the Committee must be satisfied that:

- The Company's Remuneration Policy demonstrates a clear relationship between achievement of the Company's objectives and individual performance and remuneration;
- The Company's Remuneration Policy encourages behaviours that support long-term financial soundness, growth and success of the Company within an appropriate risk management framework;
- The Company's Remuneration Policy is aligned with market trends

From time to time, the Committee also engages external remuneration consultants to assist with their responsibilities. Details of consultants engaged during the year are disclosed later in this report.

The Remuneration & Nominations Committee Charter is available for review on the Company's website.

2.3 Remuneration Policies

The Company has established a number of policies to support the remuneration and governance framework. These policies include Remuneration Policy, Code of Conduct, Disclosure Policy and Share Trading Policy.

The Code of Conduct Policy, Disclosure Policy and Share Trading Policy are available for review on the Company's website.

2.4 Reliance on external remuneration consultants

From time to time, the Remuneration & Nominations Committee seeks external independent remuneration advice.

In July 2016, the Remuneration & Nominations Committee engaged AON Hewitt to review its existing Long-term Incentive Plan and to provide recommendations on long-term incentive plan design. AON Hewitt fees for these services was \$27,500.

AON Hewitt confirmed that any remuneration recommendations were free from undue influence from the members of the groups key management personnel.

Subsequent to year end, the Remuneration & Nominations Committee undertook a Board Performance Review in accordance with its policy for Evaluation of Board and Senior Executives. The policy is available for review on the Company's website.

Directors' Report

30 June 2017

Remuneration report (audited)

2) Remuneration policy and link to performance

The following arrangements were made to ensure that the remuneration information, advice and recommendations were free from undue influence:

- The agreement for the provision of remuneration consulting services was approved by the Chair of the Remuneration & Nominations Committee under delegated authority from the Board,
- The final report that contained within recommendations was provided to the Chair of the Remuneration & Nominations Committee and was presented directly to the Committee and the Board.
- The recommendations were provided to the committee as an input into decision making only. The Remuneration & Nominations Committee considered the recommendations along with other factors in making the remuneration decisions.

The board were satisfied that recommendations provided by external advisors during the Financial Year were free from undue influence from any members of the key management personnel.

3) Remuneration Expenses of KMP

3.1 Elements of remuneration

The remuneration policy provides a balance between employees fixed remuneration, combined with at risk short term and long term incentives.

Fixed remuneration

Fixed remuneration includes market competitive salary including superannuation as required by law. Industry benchmarks are used to determine market salaries and are a key reference point for setting fixed remuneration components. Other data sources are used where appropriate to understand the market for the role in question.

A benchmarking exercise was conducted in Financial Year 2017 to review the level of Fixed Remuneration of senior executives including KMP. Fixed remuneration comparatives were positioned against the median level of peer companies in Healthcare and general market positions. Individual fixed remuneration increases were in line with general market movements.

Short-Term Incentive

The Short-Term Incentive Plan (STIP) is intended to drive performance against the Company's short-term business objectives. STIP payments are at risk, subject to the achievement of predefined Company and personal performance hurdles which are set annually by the Board at the beginning of the performance period. Under the plan, Company and personal objectives operate independently and the weighted result for each is then multiplied together to determine the final STIP amount.

During the year, the STI plan was reviewed and extended through to all non-sales employees of the organization. This was implemented to provide better alignment with both industry and best practice.

STI framework comprises of financial performance metrics covering both operating profits, capital management and non-financial metrics. Each category is weighted in accordance with position and ability to influence outcomes.

Financial metrics are based on underlying EBITDA performance before expenses relating to acquisitions and other one-off major expenditure's unrelated to typical business operations.

Directors' Report

30 June 2017

Remuneration report (audited)

3) Remuneration Expenses of KMP

3.1 Elements of remuneration (continued)

Long-Term Incentive

The Long-Term Incentive Plan (LTIP) is intended to drive performance against the Company's long-term business objectives and to encourage the alignment of personal and shareholder interests. Underlying EPS is based on underlying NPATA (refer Operating Result Summary in the Directors Report).

Further details of LTI issues and specific terms and conditions of each issue are outlined later in this report.

3.2 Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. This is achieved through both the STI and LTI plans.

Company Performance

This section outlines the elements of KMP remuneration in fiscal year 2017, how remuneration is linked to performance and how remuneration outcomes are delivered.

The following table shows the gross revenue, profits and dividends for fiscal year 2017 for the Group:

| | FY17 | FY16 | FY15 | FY14 |
|--|----------------|-------------|--------|--------|
| | \$'000 | (Restated*) | \$'000 | \$'000 |
| | | \$'000 | | |
| Revenue | 126,708 | 114,787 | 99,313 | 87,295 |
| EBITDA (underlying) | 20,356 | 19,462 | 17,318 | 15,271 |
| NPAT | 7,144 | 7,564 | 3,744 | 20,582 |
| NPATA (underlying) | 9,021 | 8,896 | 8,723 | 7,500* |
| Share Price at Year-end (\$) | 2.22 | 1.66 | 3.50 | 2.26 |
| Dividends Paid (\$'000) including DRP | 5,859 | 5,317 | 6,375 | 9,300 |
| Dividend declared (cents per ordinary share) | 13.75 | 12.50 | 15.00 | 7.50** |

* Refer Note 25 for details

** FY14 - Pro-forma NPATA post IPO and final declared dividend

The remuneration packages of the Chief Executive Officer and Key Management Personnel are constructed to deliver performance and commitment to the Company whilst being in line with market for the relevant positions.

Directors' Report

30 June 2017

Remuneration report (audited)

Remuneration details for the year ended 30 June 2017

The following table summarises the components of remuneration for each Director or KMP of the Group for the year.

Table of benefits and payments

| | Cash salary/ fees | Short term Bonus# | Non monetary | Other short- term | Sub-total | Post employment Superannuation | Annual Leave and Long Service Leave | Share based payments Options and rights | Shares and units | Grand total |
|---------------------------------|----------------------|----------------------|-----------------|----------------------|------------------|--------------------------------------|---|---|---------------------|------------------|
| 2017 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | \$ |
| Directors | | | | | | | | | | |
| Bill Best (full year) | 119,863 | - | - | - | 119,863 | 11,496 | - | - | - | 131,359 |
| Matthew Muscio (CEO full year) | 392,306 | 45,900 | - | - | 438,206 | 36,503 | 30,191 | 172,357 | - | 677,257 |
| John Hickey (full year) | 73,059 | - | - | - | 73,059 | 6,941 | - | - | - | 80,000 |
| Donna Staunton (full year) | 75,487 | - | - | - | 75,487 | 7,171 | - | - | - | 82,658 |
| Heith Mackay-Cruise (full year) | 68,493 | - | - | - | 68,493 | 6,507 | - | - | - | 75,000 |
| KMP | | | | | | | | | | |
| Dean Taylor (CFO full year) | 300,947 | 26,082 | - | - | 327,029 | 33,696 | 25,080 | 66,738 | - | 452,543 |
| | 1,030,155 | 71,982 | - | - | 1,102,137 | 102,314 | 55,271 | 239,095 | - | 1,498,817 |

Percentage of remuneration that was performance related is 32% and 21% for Matthew Muscio and Dean Taylor respectively.

Directors' Report

30 June 2017

Remuneration report (audited)

Remuneration details for the year ended 30 June 2017 (Continued)

| | Cash salary/ fees | Short term Bonus# | Non monetary | Other short- term | Sub-total | Post employment Superannuation | Annual Leave and Long Service Leave | Share based payments Options and rights | Shares and units | Grand total |
|-------------------------------------|----------------------|----------------------|-----------------|----------------------|-----------|--------------------------------------|---|---|---------------------|-------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | \$ |
| 2016 | | | | | | | | | | |
| Directors | | | | | | | | | | |
| Bill Best (full year) | 118,721 | - | - | - | 118,721 | 11,278 | - | - | - | 129,999 |
| Daren McKennay (CEO to 26/8/15) | 79,487 | - | - | - | 79,487 | 4,826 | 239,713 | - | - | 324,026 |
| Matthew Muscio (CEO from 26/8/15) | 329,553 | 70,875 | - | - | 400,428 | 26,395 | 23,710 | 176,915 | - | 627,448 |
| John Hickey (full year) | 73,059 | - | - | - | 73,059 | 6,940 | - | - | - | 79,999 |
| Donna Staunton (full year) | 63,927 | - | - | - | 63,927 | 6,073 | - | - | - | 70,000 |
| Heith Mackay-Cruise (from 25/11/15) | 38,274 | - | - | - | 38,274 | 3,636 | - | - | - | 41,910 |
| KMP | | | | | | | | | | |
| Matthew Muscio (COO to 26/8/15) | 53,272 | - | - | - | 53,272 | 4,826 | - | - | - | 58,098 |
| David Wiggins (CFO to 28/10/15) | 71,535 | - | - | - | 71,535 | 9,398 | 27,398 | - | - | 108,331 |
| Dean Taylor (CFO from 28/10/15) | 197,107 | 42,000 | - | - | 239,107 | 17,479 | 15,982 | 55,475 | - | 328,043 |
| | 1,024,935 | 112,875 | - | - | 1,137,810 | 90,851 | 306,803 | 232,390 | - | 1,767,854 |

Percentage of remuneration that was performance related is 39% and 30% for Matthew Muscio and Dean Taylor respectively.

Directors' Report

30 June 2017

Remuneration report (audited)

Securities received that are not performance related

No members of KMP are entitled to receive securities which are not performance-based as part of their remuneration package.

Cash performance-related bonuses

Each of the bonuses described in the table above were awarded in accordance with the terms of the scheme and the relevant KPIs. All bonuses are at the discretion of the Board.

No amounts vest in future financial years in respect of the bonus schemes for the current financial year.

The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

4) Contractual arrangements for KMP

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Group in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of Director.

The remuneration and other terms of employment for the CEO and KMP are set out in formal service agreements as summarised below.

| KMP | Term | Notice period | Base salary including superannuation | Termination Period* |
|--|---------------|---------------|--------------------------------------|---------------------|
| Matthew Muscio (Chief Executive Officer) | No fixed term | 6 months | \$459,000 | 6 months |
| Dean Taylor (Chief Financial Officer) | No fixed term | 6 months | \$357,000 | 6 months |

* If terminated with notice and without cause.

5) Non-executive director arrangements

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

During the Financial Year 2017, the Remuneration & Nominations Committee reviewed the market rates for Non-Executive Directors which were increased in alignment to market.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting, the current maximum is \$600,000 which was set at the time of the IPO.

| Board Fees | |
|-------------------|-----------|
| Chair | \$130,000 |
| Directors | \$70,000 |
| Committee Fees | |
| Committee Chair | \$10,000 |
| Committee Members | \$5,000 |

Directors' Report

30 June 2017

Remuneration report (audited)

6) Additional statutory information

Options

LifeHealthcare established the LifeHealthcare Group Limited Employee Option Plan (formerly the LifeHealthcare Pty Limited Employee Option Plan) on 5 February 2009. The Employee Option Plan is designed to provide long-term incentives for the CEO, KMP and senior managers to deliver long-term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

At the date of this report, the unissued ordinary shares of LifeHealthcare Group Limited under options totaled 2,936,213 (2016: 1,706,228) detailed as follows:

| Grant date | Date of expiry | Exercise price | Number of ordinary shares under option |
|------------------|------------------|----------------|--|
| 28 June 2013 | 28 June 2018 | \$1.54 | 535,247 |
| 5 December 2013 | 5 December 2018 | \$2.00 | 155,144 |
| 30 June 2014 | 30 June 2019 | \$2.25 | 107,988 |
| 30 June 2015 | 30 June 2020 | \$3.42 | 406,666 |
| 28 October 2015 | 28 October 2020 | \$3.23 | 312,706 |
| 25 October 2016 | 25 October 2021 | \$1.99 | 598,301 |
| 21 December 2016 | 21 December 2021 | \$1.99 | 715,937 |
| 21 December 2016 | 21 December 2020 | \$0.00* | 104,244 |

* Performance Rights over ordinary shares and subject to performance conditions.

Option holders do not have any rights to participate in any issues of shares or other interests in the Group or any other entity. No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The following ordinary shares were issued during the year on the exercise of the options granted under the Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

| Date Option Granted | Date Option Exercised | Issue Price | Number of Shares |
|---------------------|-----------------------|-------------|------------------|
| 28 June 2013 | 21 February 2017 | \$1.5429 | 155,144 |

Terms & Conditions of share-based payment arrangement issued in Financial Year 2017

During the year, the Board and Remuneration & Nominations Committee amended the performance terms and conditions of the incentive options issued in Financial Year 2017. AON Hewitt provided advice and recommendations in respect of current market practices and the changes included the following:

- Addition of a performance gateway to achieve minimum Earnings per Share growth rate;
- Addition of a secondary performance condition aligned with a relative shareholder return; and
- Addition of performance rights based on performance conditions

Directors' Report

30 June 2017

Remuneration report (audited)

6) Additional statutory information

Terms & Conditions of share-based payment arrangement (continued)

The allocation of options and performance rights are at the sole discretion of the Board. These changes reflect an improved alignment with shareholder expectations.

An incentive option will vest and become exercisable to the extent that the following performance conditions are satisfied:

- The incentive options are tested against the Earnings Per Share Performance Gateway Conditions at the vesting date and if the incentive Options do not vest on the Vesting Date due to not meeting the Earnings Per Share Performance Gateway Conditions the Incentive Options lapse and will be cancelled.
- The Earnings per Share Performance Gateway Condition is as follows:

| Earnings per share performance | % of Incentive Options that vest |
|--|---|
| Below 7% of Compound Annual Growth Rate (CAGR) | Nil |
| Above 7.0% CAGR | 100% |

If the performance gateway condition is met on the vesting date, the Relative Total Shareholder Return (TSR) Performance Condition is tested.

- TSR of the Company will be measured against selected companies with the S&P/ASX Small Ordinaries Index. The Board may at its discretion adjust the comparator group to take into account events including without limitation takeovers, mergers, delisting or demergers that occur during the Performance Period.
- The TSR Performance condition:

| Relative TSR Performance | % of Incentive Options that vest |
|---|---|
| Relative TSR below 50th percentile of index | Nil |
| Relative TSR above 50th percentile of index | 100% |

- If the incentive options do not vest on the Vesting Date due to meeting the Earnings Per Share Performance Condition, but not meeting the Relative TSR Performance Condition, then the Incentive Options will be tested against the Relative TSR Performance Condition on the first anniversary after the second vesting date. If the Relative TSR Performance Conditions are not met on the second vesting date, the incentive options lapse and will be cancelled.
- KMP are also entitled and encouraged to participate in the employee share and option arrangements to align their interests with shareholders' interests. Upon resignation or retirement, KMP are paid employee benefit entitlements accrued to the date of resignation or retirement. Any options not exercised before or on the date of termination will lapse.
- Options granted under these arrangements do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share and is valued using the Black-Scholes methodology.

Directors' Report**30 June 2017****Remuneration report (audited)****6) Additional statutory information****Terms & Conditions of share-based payment arrangement issued post IPO up to Financial Year 2016**

Options issued post IPO and up to Financial Year 2016 were subject to the following hurdles:

| Earnings per share performance | % of Incentive Options that vest |
|--|---|
| Below 7% Compound Annual Growth Rate (CAGR) | Nil |
| 7.0% CAGR | 50% |
| Above 7.0% to 11.0% CAGR | Pro-rated vesting on a straight-line basis between 50% and 100% |
| At, or above, 11.0% CAGR | 100% |

Terms & Conditions of share-based payment arrangement issued pre IPO

Options were issued in June 2013, prior to IPO listing date of December 2013, and were made to align select senior executives on a successful IPO outcome. These options have met their vesting conditions and are available to be exercised. These options have been included in KMP option disclosures contained in this Remuneration Report where applicable.

Directors' Report

30 June 2017

Remuneration report (audited)

Options and rights granted and vested during the year to KMPs

| Grant details | | | For the financial year ended 30 June 2017 | | | | Overall | | |
|----------------|------------------|----------|---|----|------------|----------|------------|----------|--|
| | | | Exercised | | Vested | | Unvested | Lapsed | |
| | No. | Value \$ | Exercised No. | \$ | Vested No. | Vested % | Unvested % | Lapsed % | |
| Date | | | | | | | | | |
| KMP | | | | | | | | | |
| Matthew Muscio | 28 October 2016 | 598,301 | 339,858 | - | - | - | 0 | 100 | |
| Matthew Muscio | 28 June 2013 | 418,889 | 266,360 | - | - | 418,889 | 100 | 0 | |
| Dean Taylor | 21 December 2016 | 95,396 | 67,575 | - | - | - | 0 | 100 | |

Option values at grant date were determined using the Black-Scholes method.

All options were issued by LifeHealthcare Group Limited and entitle the holder to ordinary shares in LifeHealthcare Group Limited for each option exercised. There have not been any alterations to the terms or conditions of any share based payment arrangements since grant date.

Directors' Report

30 June 2017

Remuneration report (audited)

Key management personnel shareholdings

The number of ordinary shares in LifeHealthcare Group Limited held by each key management person of the Group during the financial year is as follows:

| | Balance 1 July 2016 | Disposal of shares | Shares acquired during the year | Resignation* | Balance at 30 June 2017 |
|------------------------------------|------------------------|-----------------------|--|--------------|-------------------------------|
| Year ended 30 June 2017 | | | | | |
| Directors | | | | | |
| Bill Best | 200,000 | - | - | - | 200,000 |
| John Hickey | 82,685 | - | - | - | 82,685 |
| Donna Staunton | 5,000 | - | - | - | 5,000 |
| Heith Mackay-Cruise | 13,000 | - | 377 | - | 13,377 |
| Other KMP | | | | | |
| Matthew Muscio | 28,100 | - | - | - | 28,100 |
| Dean Taylor | 9,000 | - | 4,000 | - | 13,000 |
| | 337,785 | - | 4,377 | - | 342,162 |
| | Balance 1 July 2015 | Disposal of shares | Shares acquired during the year | Resignation* | Balance at 30 June 2016 |
| Year ended 30 June 2016 | | | | | |
| Directors | | | | | |
| Bill Best | 100,000 | - | 100,000 | - | 200,000 |
| Daren McKennay | 1,482,650 | (1,482,650) | - | - | - |
| John Hickey | 50,000 | - | 32,685 | - | 82,685 |
| Donna Staunton | 5,000 | - | - | - | 5,000 |
| Heith Mackay-Cruise | - | - | 13,000 | - | 13,000 |
| Other KMP | | | | | |
| Matthew Muscio | 2,500 | - | 25,600 | - | 28,100 |
| Dean Taylor | - | - | 9,000 | - | 9,000 |
| David Wiggins | 50,000 | (50,000) | - | - | - |
| | 1,690,150 | (1,532,650) | 180,285 | - | 337,785 |

6.1 Loans to KMPs

The Company has not provided any loans during the year to any KMP.

Directors' Report

30 June 2017

Remuneration report (audited)

6.2 Voting of shareholders at last year's annual general meeting

The Company received more than 90% of 'yes' votes on its remuneration report for the 2016 financial year. The company did not receive an specific feedback at the AGM.

This Directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Matt Muscio
Director

Sydney

Dated 22 August 2017



Auditor's Independence Declaration

As lead auditor for the audit of LifeHealthcare Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of LifeHealthcare Group Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'S.T. Maher'.

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
22 August 2017

Corporate Governance Statement

30 June 2017

The Board is committed to achieving and demonstrating the highest standards of corporate governance. The Board seeks to refine and improve the existing governance framework and practices, to ensure they meet the interests of shareholders. The Company complies with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (the Principles).

LifeHealthcare Group Limited and its controlled entities are referred to as "LifeHealthcare" in this statement.

Copies of LifeHealthcare's Board Committee Charters and key corporate governance policies are available in the Corporate Governance section of the Company's website at www.lifehealthcare.com.au.

Principle 1: Lay solid foundations for management and oversight

The Board of Directors are responsible for the corporate governance of LifeHealthcare. The Board monitors the operation and financial position and performance of LifeHealthcare and oversees its business strategy, including approving the strategic goals. The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return and sustaining the growth and success of LifeHealthcare. In conducting business with these objectives, the Board strives to ensure that LifeHealthcare is properly managed to protect and enhance shareholder interests and that LifeHealthcare, its Directors, officers and employees operate in an appropriate environment of corporate governance.

The Board has adopted corporate governance policies and practices designed to promote the responsible management and conduct of LifeHealthcare.

The Board has adopted a Charter that details its roles and responsibilities, which is available on the LifeHealthcare website.

Responsibilities of the Board

The Board has created a framework for managing LifeHealthcare, including internal controls and a business risk management process. The Board Charter sets out the responsibilities of the Board, including:

- Providing strategic direction for and approving LifeHealthcare's strategies, objective and budgets;
- Monitoring the operation and financial position and performance of LifeHealthcare;
- Identifying the principal risks faced by LifeHealthcare and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- With the guidance of the Remunerations & Nominations Committee:
 - appointing, evaluating, rewarding or removing the CEO, CFO and other members of senior management,
 - reviewing succession planning of directors and senior management
 - monitoring the mix of skills, experience, expertise and diversity of the Board, when necessary appointing new directors for approval of shareholders
- With the guidance of the Audit & Risk Committee:
 - approving policies on and overseeing the management of business and financial and non-financial risks (including foreign exchange, interest rate risks, enterprise risk and risk in relation to workplace health and safety).
 - reviewing and monitoring processes and controls to maintain the integrity of accounting and financial records and reporting and compliance with all laws and government regulations.
 - approving financial results and reports for release and dividends to be paid to shareholders.
- Monitoring and managing the social, ethical, environment and economic impact of LifeHealthcare's activities; and
- Approving and reviewing from time to time, LifeHealthcare's internal compliance procedures, including the Code of Conduct and taking all reasonable steps to ensure that the business of LifeHealthcare is conducted in an open and ethical manner.

The Board delegates authority to the CEO for implementing the strategic objectives agreed by the board and leads the management team for the day to day operations of LifeHealthcare, its subsidiaries and their respective operations.

Corporate Governance Statement

30 June 2017

Appointment of new Directors

To address the issue of Board succession and to ensure the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively, Board members share the responsibility for identifying suitable candidates to fill any available Board position. The suitability of each candidate is assessed against a range of criteria including their professional experience and relevant qualifications, the potential for their skill set to augment the skills held by existing Board members and the candidate's availability to participate in Board activities.

The appointment of any new Director must subsequently be approved by shareholders at LifeHealthcare's next Annual General Meeting. Through undertaking appropriate checks and the inclusion of background material in the Notice of Meeting, the Board aims to provide shareholders with all the relevant information available, to assist shareholders with their decision regarding whether to elect / re-elect a Director.

Director and Executive Terms of Appointment

The current directors and the senior executives have, and all new directors and executives are required to have, formal letters of appointment setting out the terms and conditions of their appointment.

Company Secretary Responsibilities

The Company Secretary is accountable to the Board through the Chair on accurate and timely information and all corporate governance matters to ensure the Board discharge their responsibilities as directors.

Diversity policy

LifeHealthcare and its Board consider that diversity includes differences which relate to gender, age, ethnicity and cultural background. It also includes differences in lifestyle, education, physical ability and appearance. The Board seeks to develop a culture of diversity within LifeHealthcare, whereby a mix of skills and diverse backgrounds are employed at all levels.

LifeHealthcare strives to:

- Develop and maintain a diverse and skilled workforce through transparent recruitment and selection processes;
- Promote an inclusive workplace culture which values all employees backgrounds, experiences and perspectives, through improved awareness of the benefits of tolerance and workforce diversity; and
- Provide opportunities for training and career advancement which are based solely on merit; thereby allowing each employee to reach their full potential.

LifeHealthcare has not set measurable objectives for achieving gender diversity.

Gender diversity in LifeHealthcare is evidenced by:

| Proportion of: | June 2017 | | June 2016 | |
|---|-----------|------------|-----------|------------|
| | Number | Percentage | Number | Percentage |
| Women employees in the whole organisation | 95 | 49% | 86 | 49% |
| Women in executive positions** | 3 | 42% | 3 | 33% |
| Women on the Board | 1 | 20% | 1 | 20% |

** An Executive Position is a management position which participates in regular discussion and evaluation of the overall performance and strategy of the business. Such positions report directly to a member of the Key Management Personnel.

LifeHealthcare conducts a periodic review of the effectiveness of the diversity policy by reviewing qualitative information by measuring relative participation of women and men in the workplace and roles they are employed in. From these reviews LifeHealthcare has undertaken gender equality pay analysis and compared like for like roles. Where there has been disparity identified strategies have been implemented to address these and policies put in place to prevent future disparity between like roles. In addition, LifeHealthcare has implemented in 2016 a number of policies that encourage diversity within the workplace such as the provision of flexible working arrangements for primary carers.

In accordance with the Workplace Gender Equality Act 2012, LifeHealthcare lodged its annual compliance report with the Workplace Gender Equality Agency in May 2016. A copy of the report is available on request, from the Company Secretary.

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A copy of the Diversity Policy may be found on LifeHealthcare's website.

Evaluation of Directors and Executives

A performance evaluation for the Board, Directors and committees takes place on an annual basis.

A performance assessment of senior executives takes place annually in June, the last occasion being June 2017. The assessment is undertaken with each of the senior executives by the CEO. The process is facilitated by the General Manager of People and Culture.

LifeHealthcare's policy for the evaluation of Directors and Senior Executives is available on LifeHealthcare's website.

Principle 2: Structure the Board to add Value

Composition of the Board

It is intended that the Board should comprise a majority of independent non-executive Directors and comprise Directors with a broad range of skills, expertise and experience, from a diverse range of backgrounds.

The Board's composition is determined based on criteria set out in the Company's constitution and the Board Charter. The Board seeks to ensure that:

- The Chair of the Board is an independent director and in particular, is not the same person as the CEO;
- At any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of LifeHealthcare and Directors with an external or fresh perspective;
- There is a sufficient number of Directors to serve on Board Committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities; and
- The size of the Board is appropriate to facilitate effective discussion and efficient decision making.

The Board considers an independent Director to be a non-executive Director who is not a member of LifeHealthcare management and who is free of any business or other relationship which could materially interfere with the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case by case basis.

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time. In accordance with the ASX Listing Rules, the Company holds an election of Directors each year.

Board committees

Audit and Risk Committee: All decision making on substantive matters is made by management, in conjunction with the Board. To assist the Board in performing its duties, the Board has established an Audit and Risk Committee, which has its own Charter. John Hickey is the Chair of the Audit and Risk Committee. Members of the Committee are Bill Best, Donna Staunton, Heith Mackay-Cruise and Matt Muscio and members by invitation are the Company Secretary. Copies of the minutes of Committee meetings are made available to the full Board, and the Chairman of the Committee provides an update on the outcomes at the Board meeting that immediately follows the Committee meeting.

Remuneration & Nominations Committee: The Board established a Remuneration Committee in April 2016, and subsequently amended and approved to include the Nominations on 23 May 2017. The role of the Committee is to assist and advise the board of directors to fulfil its responsibilities to the members of the Company on matters relating to compensation, bonuses, incentives and remuneration of the Directors, Senior Executives, Executive Leadership Team and Employees.

The Committee includes at least three members, made up of the CEO and at least two (2) non-executive directors of the board. Donna Staunton is the Chair of the Remuneration & Nominations Committee together with Heith Mackay-Cruise as an independent Director. A quorum is at least two committee members, at least one of which must be a non-executive director and the Committee chair.

The Remuneration & Nominations Committee Charter is available on LifeHealthcare's website.

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Copies of the minutes of the Committee meetings are made available to the full Board, and the Chairman of the Committee provides an update on the outcomes at the Board meeting that immediately follows the Committee meeting.

Other committees: The Board may establish other Committees from time to time, if required to deal with matters of special importance.

Independent decision making

The Board recognises the important contribution independent Directors make to good corporate governance. All Directors, whether independent or not, are required to act in the best interests of LifeHealthcare and to exercise unfettered and independent judgement.

The Board has adopted specific principles in relation to Directors' independence and considers the following, at least annually, when determining if a Director is independent:

Whether the Director:

- Is a substantial shareholder of LifeHealthcare or an officer of, or otherwise associated directly with, a substantial shareholder of LifeHealthcare;
- Is employed, or was previously employed in an executive capacity by LifeHealthcare, within three years prior to their appointment as a Director;
- Has, within the last three years, been a principal of a material professional adviser or a material consultant to LifeHealthcare, or an employee materially associated with the service provided;
- Is a material supplier or customer of LifeHealthcare, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- Has a material contractual relationship with LifeHealthcare, other than as a Director.

Role of the Chair

The Chair of the Board is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning.

The Chair facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and between the Board and management.

Access to information

The Board is provided with the information it needs to discharge its responsibilities effectively and all Directors have complete access to senior executives through the Chairman, CEO or Company Secretary at any time.

In accordance with the Board Charter, and with prior approval from the Chair, a Director may obtain (at LifeHealthcare's expense) external professional advice in respect of matters necessary for the Director to make fully informed and independent decisions. Such advice must be made available to all the other Directors.

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Board Members Skills Matrix

On at least an annual basis, the Board undertakes a review of the skills possessed by individual Board members and by the group as a whole. Where any gaps are identified, steps are taken to ensure the relevant Board member(s) obtain the necessary skills and/or knowledge, to enable the Board to function effectively; this includes access to appropriate professional development opportunities. A summary of the skills held by the current Board, is shown below:

| Skills and experience | Number of directors |
|--|---------------------|
| Asia-Pacific business experience | 4 |
| Capital raising, mergers and acquisitions | 4 |
| Corporate governance and compliance | 5 |
| Financial acumen | 5 |
| General management and leadership | 5 |
| Government relations | 3 |
| Human resources management | 5 |
| Industry experience (health sector) | 4 |
| Marketing | 4 |
| Regulatory compliance (within health sector) | 3 |
| Strategy and risk management | 5 |
| Workplace health and safety | 5 |

Directors Independence and Experience

A majority of current Directors are independent Directors. The independence of Directors and their length of service is summarised below:

A majority of current Directors are independent Directors.

| Name of Director | Independent? | Length of service |
|----------------------|--------------|-----------------------|
| Bill Best (Chairman) | Yes | Between 3 and 4 years |
| John Hickey | Yes | Between 3 and 4 years |
| Donna Staunton | Yes | Between 3 and 4 years |
| Heith Mackay-Cruise | Yes | Between 1 and 2 years |
| Matthew Muscio | No-CEO | Between 1 and 2 years |

Details of the Board Member's experience, expertise, qualifications, term of office and independence status, are set out in the Directors' report.

Induction of New Directors

All new Directors participate in a formal induction process coordinated by the Company Secretary. This induction process includes briefings on LifeHealthcare's financial, strategic, operational and risk management position, governance framework and key developments within LifeHealthcare, as well as the industry and environment in which it operates. In addition, appropriate professional development opportunities are available to Directors to develop and maintain the skills and knowledge needed to effectively perform their role as directors.

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Principle 3: Promote ethical and responsible decision-making

Code of conduct

The Board acknowledges and emphasises the importance of all Directors and employees maintaining the highest standards of professionalism, ethical conduct and upholding the reasonable expectations of LifeHealthcare's stakeholders including all industry codes of conduct.

A code of conduct has been established requiring Directors and employees to:

- Act honestly and in good faith;
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any possible conflicts of interest;
- Comply with laws, rules and regulations, as well as industry codes of practice;
- Encourage the reporting and investigating of actual or potentially unlawful and unethical behaviour; and
- Comply with the share trading policy.

LifeHealthcare has appropriate policies, procedures and training in place to educate all employees on the code of conduct. The Company Secretary, in his capacity to monitor compliance, and the General Manager for People and Culture are allocated the responsibility to investigate any conflicts or breaches of the code.

The Code of Conduct is available for all employees on the Company Intranet and is included as part of all employees induction process.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

The Audit and Risk Committee assists the Board in fulfilling its corporate governance responsibilities with respect to:

- The integrity of the financial reporting;
- Compliance with legal and regulatory obligations;
- The effectiveness of the risk management and internal control framework; and
- Oversight of the independence of the external auditors.

The names and qualifications of those appointed to the Audit and Risk Committee and a table showing the number of Audit and Risk Committee meetings and the members' attendance at these meetings are noted under "Principle 7: Recognise and Manage Risk".

The Audit and Risk Committee reports to the full Board after every meeting on all matters relevant to the Committee's roles and responsibilities.

Maintenance of Financial Records

The Board has received assurance from the CEO and CFO that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The CEO and CFO have declared that, in their opinion, the financial records of LifeHealthcare have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of LifeHealthcare.

External auditor

The Audit Committee oversees the relationship with the external auditor. In accordance with the Corporations Act 2001, the lead Audit Partner on the audit is required to rotate at the completion of a 5 year term.

The external auditor attends the Annual General Meeting (AGM) and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

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Principle 5: Make timely and balanced disclosure

LifeHealthcare has established policies and procedures to ensure timely and balanced disclosures of all material matters concerning LifeHealthcare and to ensure that investors have access to information on LifeHealthcare's financial performance.

These policies and procedures include a comprehensive disclosure policy that includes identification of matters that a reasonable person would expect to have a material effect on the price on LifeHealthcare's securities, notifying them to the ASX, posting relevant information on LifeHealthcare's website and issuing media releases.

A copy of the Disclosure Policy is available from LifeHealthcare's website.

The Annual Report includes relevant information about the operations of LifeHealthcare during the year, key financial information, changes in the state of affairs and indications of future developments. The Annual Report is available under the Investor Relations section of LifeHealthcare's website.

The half year and full year financial results are announced to the ASX and are available under the Investor Relations section of LifeHealthcare's website.

All announcements made to the market, and related information (including presentations to investors and information provided to analysts or the media during briefings) are made available to all shareholders under the Investor Relations section of LifeHealthcare's website, after they are released to the ASX. All ASX announcements, media releases and financial information is available within one day of public release.

Principle 6: Respect the rights of shareholders

Investor Communication

The Company Secretary and the General Manager Corporate Development have been nominated as the persons responsible for communications with the ASX. All Executive Management have an ongoing obligation to advise the Company Secretary of any material non-public information which may need to be communicated to the market.

LifeHealthcare has a Shareholder Communications Policy which promotes effective communication with shareholders and encourages participation at general meetings. LifeHealthcare is committed to communicating with Shareholders in a timely and accurate manner and makes all ASX announcements available under the Investor Relations section of LifeHealthcare's website.

The Notice of AGM will be provided to all shareholders and posted on LifeHealthcare's website. Notices for general meetings and other communications with shareholders are drafted to ensure that they are accurate and clearly state the nature of the business of the meeting.

Investor Relations Program

LifeHealthcare has implemented an investor relations program which facilitates effective two way communication with investors including a dedicated investor relations email address, investor.relations@lifehealthcare.com.au and the ability for investors to subscribe to company news under the investor relations section of LifeHealthcare's website.

The Board encourages full participation by shareholders at the AGM, to ensure a high level of director accountability to shareholders. Shareholders are requested to vote on the adoption of LifeHealthcare's remuneration report and, when applicable, to vote on matters such as the granting of options to Directors.

LifeHealthcare encourages shareholders to receive company information electronically by registering their email address online with LifeHealthcare's shareholder registry.

Principle 7: Recognise and manage risk

The Board is responsible for satisfying itself (on an annual basis as a minimum) that management has developed and implemented a sound system of risk management and internal controls.

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The Audit and Risk Management Committee (the Committee) shall assist the Board in fulfilling its responsibilities for corporate governance and oversight of LifeHealthcare's financial reporting, internal control structure, financial licensing and regulatory compliance systems, risk management systems (relating to all financial and nonfinancial risks, including enterprise risk and risk in relation to occupational health and safety), assessment of material exposure of the enterprise to any risks associated with economic, environmental and social sustainability, and the internal and external audit functions. In doing so, the Committee has the responsibility to maintain free and open communication with the external auditor, internal auditor (if any), and LifeHealthcare's management.

The committee met five times during the year. Attendance by committee members was:

| Name | Qualifications and experience | Number of meetings held while a Director | Number of meetings attended |
|--|--|--|-----------------------------|
| John Hickey Chairman of the Committee Independent director | BBus; More than 20 years' experience in the healthcare sector. | 5 | 5 |
| Bill Best Independent director | BComm, LLB, MComm; More than 30 years' experience in investment banking and stockbroking. | 5 | 5 |
| Heith Mackay-Cruise Independent director | BEc; Extensive consumer and technology experience and as an independent non-executive director. | 5 | 5 |
| Donna Staunton Independent director | BA, LLB; Extensive healthcare and government relations experience. | 5 | 5 |
| Matt Muscio | BBus, GD-BA Extensive healthcare and management experience. | 5 | 5 |

Due to the size of LifeHealthcare, there is no dedicated internal audit function. Due to the complexity of the control environment, the Board receives assistance from suitably qualified external consultants, in the ongoing evaluation of the risk management framework and improvements to internal controls and processes. The Board reviews this approach periodically, to ensure its continued appropriateness for LifeHealthcare.

The CEO and the CFO have been delegated the task of implementing internal controls to identify and manage risks for which the Board provides oversight. The effectiveness of these controls is monitored and reviewed regularly. The Board requires the CEO and CFO to report on whether those risks are being managed effectively.

The Board has considered whether LifeHealthcare has any material exposure to economic, environmental and/or social sustainability risks. The Board has concluded that LifeHealthcare has no material exposure to any of these risks.

The Audit and Risk Committee Charter is available on LifeHealthcare's website.

Principle 8: Remunerate fairly and responsibly

Remuneration & Nominations Committee

The Board established a Remuneration Committee in April 2016, and subsequently amended and approved by the Board to include the Nominations on 23 May 2017. The role of the Committee is to assist and advise the board of directors to fulfil its responsibilities to the members of the Company on matters relating to compensation, bonuses, incentives and remuneration of the Directors, Senior Executives, Executive Leadership Team and Employees.

The Committee includes at least three members, made up of the CEO and at least two (2) non-executive directors of the board. Donna Staunton is the Chair of the Remuneration & Nominations Committee together with Heith Mackay-Cruise as an independent Director. A quorum is at least two committee members, at least one of which must be a non-executive director and the Committee chair.

The Remuneration & Nominations Committee Charter is available on LifeHealthcare's website.

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Copies of the minutes of the Committee meetings are made available to the full Board, and the Chairman of the Committee provides an update on the outcomes at the Board meeting that immediately follows the Committee meeting.

Attendance by committee members was:

| Name | Qualifications and experience | Number of meetings held while a Director | Number of meetings attended |
|---|--|--|-----------------------------|
| Donna Staunton Chairman of the Committee Independent director | BA, LLB; Extensive healthcare and government relations experience. | 7 | 7 |
| Heith Mackay-Cruise Independent director | BEC; Extensive consumer and technology experience and as an independent non-executive director. | 4 | 4 |
| Matt Muscio | BBus, GD-BA Extensive healthcare and management experience. | 7 | 7 |

Remuneration Policy

The remuneration policy, which sets the terms and conditions for the Key Management Personnel was developed after seeking professional advice from independent consultants and was approved by the Board.

The remuneration policy is designed in such a way that it:

- Motivates senior executives to pursue the long term growth and success of the Company; and
- Demonstrates a clear relationship between senior executives' performance and remuneration.

All executives receive a base salary, superannuation and performance incentives. Executive packages are reviewed annually by reference to Company performance, executive performance, comparable information from industry sectors and other listed corporations, as well as independent advice. The performance of executives is measured against criteria agreed annually, which are based on the achievement of the Group's overall company and divisional profits. The policy is designed to attract the highest calibre executives and reward them for performance which results in long term growth in shareholder value.

The Board expects that the remuneration structure implemented will successfully result in the Company being able to attract and retain high performing executives. It will also provide executives with the necessary incentives to work to grow long term growth in shareholder value.

At the time of their employment, the CEO and CFO each signed an employment contract, covering a range of matters including their duties and responsibilities.

The payment of bonuses, options and other incentive payments are reviewed by the Board annually as part of the review of executive remuneration. All bonuses, options and incentives must be linked to predetermined performance criteria.

Each Board member who is involved with reviewing executive remuneration:

- Is familiar with the legal and regulatory disclosure requirements in relation to remuneration; and
- Has adequate knowledge of executive remuneration issues, including executive retention and termination policies and short term and long term incentive arrangements.

The Board's policy is to remunerate non-executive Directors at market rates for their time, commitment and responsibilities. The Board receives an annual benchmarking report on non-executive remuneration, which it uses as a reference tool, when determining an appropriate level of remuneration for non-executive Directors.

The CEO, who is also an executive Director, does not receive any additional remuneration, for fulfilling the role of an executive Director.

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Further information about LifeHealthcare's remuneration strategy and policies and their relationship to LifeHealthcare's performance can be found in the Remuneration Report which forms part of the Directors' Report, together with details of the remuneration paid to Directors and Key Management Personnel.

Share Trading Policy

Qualifying individuals, such as Key Management Personnel and Directors may, from time to time, be entitled to equity based remuneration such as options. LifeHealthcare's Share Trading Policy specifically prohibits such individuals from entering into any transaction or arrangement which limits, either directly or indirectly, the economic risk of any LifeHealthcare securities held directly by that person or beneficially on that person's behalf.

A copy of LifeHealthcare's Share Trading Policy may be found on the LifeHealthcare website.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2017

| | Note | 2017 \$'000 | 2016 (restated*) \$'000 |
|--|-------|----------------|-------------------------------|
| Revenue | 4 | 126,708 | 114,787 |
| Cost of goods sold | | (60,836) | (50,671) |
| Employee benefits expense | | (30,183) | (30,003) |
| Depreciation and amortisation expense | | (5,972) | (5,493) |
| Travel expenses | | (2,858) | (2,721) |
| Occupancy expenses | | (1,865) | (1,658) |
| Distribution expenses | | (2,922) | (2,266) |
| Marketing and advertising expenses | | (1,809) | (1,949) |
| Telecommunications expense | | (338) | (355) |
| Director fees | | (390) | (339) |
| Motor vehicle expenses | | (232) | (264) |
| Transaction related expenses | 5 | (650) | (337) |
| Other expenses | | (4,920) | (5,078) |
| Finance costs | 5 | (2,368) | (2,307) |
| Share of loss from interest in joint venture | | (445) | (21) |
| Profit before income tax | | 10,920 | 11,325 |
| Income tax expense | 6 | (3,776) | (3,761) |
| Profit for the year | | 7,144 | 7,564 |
| Other comprehensive income | | | |
| Items that may be reclassified to profit or loss | | | |
| Exchange differences on translating foreign controlled entities | 21(a) | 24 | 57 |
| Changes in the fair value of cash flow hedges | 21(c) | 637 | (3,168) |
| Income tax relating to components of other comprehensive income | 6 | (191) | 950 |
| Other comprehensive income for the year, net of tax | | 470 | (2,161) |
| Total comprehensive income for the year | | 7,614 | 5,403 |
| Profit attributable to: | | | |
| Members of the parent entity | | 7,144 | 7,564 |
| Total comprehensive income attributable to: | | | |
| Members of the parent entity | | 7,614 | 5,403 |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | |
| From continuing operations: | | | |
| Basic earnings per share (cents) | | 16.7 | 17.8 |
| Diluted earnings per share (cents) | | 16.7 | 17.7 |

* Refer note 25 for details.

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

Consolidated Balance Sheet
As at 30 June 2017

| | Note | 2017 \$'000 | 2016 (restated*) \$'000 |
|--------------------------------------|------|----------------|-------------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 5,503 | 4,051 |
| Trade and other receivables | 9 | 24,190 | 24,852 |
| Inventories | 10 | 37,612 | 36,282 |
| Derivative financial assets | 11 | - | 452 |
| TOTAL CURRENT ASSETS | | 67,305 | 65,637 |
| NON-CURRENT ASSETS | | | |
| Investment in joint ventures | 31 | - | 390 |
| Property, plant and equipment | 12 | 10,404 | 10,292 |
| Deferred tax assets | 6 | 4,364 | 5,757 |
| Intangible assets | 13 | 27,270 | 28,427 |
| TOTAL NON-CURRENT ASSETS | | 42,038 | 44,866 |
| TOTAL ASSETS | | 109,343 | 110,503 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 22,559 | 24,215 |
| Borrowings | 15 | 2,854 | 2,856 |
| Current tax liabilities | | 2,086 | 731 |
| Provisions | 18 | 1,720 | 1,681 |
| Derivative financial liabilities | 17 | 786 | 1,563 |
| Other current liabilities | 16 | 137 | 259 |
| TOTAL CURRENT LIABILITIES | | 30,142 | 31,305 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 15 | 30,959 | 33,808 |
| Provisions | 18 | 625 | 553 |
| Derivative financial liabilities | 17 | 336 | 647 |
| TOTAL NON-CURRENT LIABILITIES | | 31,920 | 35,008 |
| TOTAL LIABILITIES | | 62,062 | 66,313 |
| NET ASSETS | | 47,281 | 44,190 |
| EQUITY | | | |
| Contributed equity | 19 | 27,185 | 26,276 |
| Reserves | 21 | 895 | (2) |
| Retained earnings | 20 | 19,201 | 17,916 |
| TOTAL EQUITY | | 47,281 | 44,190 |

* Refer note 25 for details.

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

| | Contributed equity \$'000 | Retained Earnings (restated*) \$'000 | Foreign Currency Translation Reserve \$'000 | Share-Based Payments Reserve \$'000 | Hedge Reserve \$'000 | Total \$'000 |
|---|---------------------------------|---|---|--|----------------------------|-----------------|
| Balance at 1 July 2016 | 26,276 | 17,916 | 230 | 999 | (1,231) | 44,190 |
| Profit for the year | - | 7,144 | - | - | - | 7,144 |
| Total other comprehensive income for the year | - | - | 24 | - | 446 | 470 |
| Transactions with owners in their capacity as owners | | | | | | |
| Dividends declared (Note 26) | - | (5,859) | - | - | - | (5,859) |
| Share based payment transactions (Note 35) | - | - | - | 427 | - | 427 |
| Shares issued during the year (Note 19) | 909 | - | - | - | - | 909 |
| Balance at 30 June 2017 | 27,185 | 19,201 | 254 | 1,426 | (785) | 47,281 |
| Balance at 1 July 2015 | 26,276 | 15,669 | 173 | 612 | 987 | 43,717 |
| Profit for the year | - | 7,564 | - | - | - | 7,564 |
| Total other comprehensive income for the year | - | - | 57 | - | (2,218) | (2,161) |
| Transactions with owners in their capacity as owners | | | | | | |
| Dividends declared (Note 26) | - | (5,317) | - | - | - | (5,317) |
| Share based payment transactions | - | - | - | 387 | - | 387 |
| Balance at 30 June 2016 | 26,276 | 17,916 | 230 | 999 | (1,231) | 44,190 |

* Refer note 25 for details.

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2017

| | Note | 2017 \$'000 | 2016 \$'000 |
|---|--------|----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers | | 142,167 | 133,592 |
| Payments to suppliers and employees | | (122,490) | (119,788) |
| | | <u>19,677</u> | <u>13,804</u> |
| Interest received | | - | 17 |
| Interest and other finance costs paid | | (2,427) | (2,307) |
| Income taxes paid | | (1,223) | (1,047) |
| Transaction related expenses | | (117) | (339) |
| Net cash provided by operating activities | 34 | <u>15,910</u> | <u>10,128</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Payments for investments in joint ventures | | - | (23) |
| Purchase of property, plant and equipment | 12, 13 | (5,107) | (5,076) |
| Payment for acquisition of subsidiary, net of cash acquired | | (1,401) | (8,664) |
| Net cash used by investing activities | | <u>(6,508)</u> | <u>(13,763)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Dividends paid | | (5,190) | (5,317) |
| Proceeds from borrowings, net of costs | | - | 9,000 |
| Repayment of borrowings | | (3,000) | (2,000) |
| Issue of new shares | | 240 | - |
| Net cash provided by financing activities | | <u>(7,950)</u> | <u>1,683</u> |
| Net increase/(decrease) in cash and cash equivalents held | | 1,452 | (1,952) |
| Cash and cash equivalents at beginning of year | | 4,051 | 6,003 |
| Cash and cash equivalents at end of year | 8 | <u>5,503</u> | <u>4,051</u> |

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

This financial report covers the consolidated financial statements and notes of LifeHealthcare Group Limited, its controlled entities and jointly controlled entities (the "Group"). LifeHealthcare Group Limited is a for profit Group domiciled in Australia. The financial statements were authorised for issue by the Board of Directors on 22 August 2017.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The separate financial statements and notes of the parent entity, LifeHealthcare Group Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. A parent entity summary is included in Note 37.

Comparatives are consistent with prior years, unless otherwise stated.

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and, accordingly amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

1 Basis of Preparation

These financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

These consolidated financial statements of the group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these financial statements are presented below and are consistent with prior reporting periods unless otherwise stated.

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

A list of controlled entities is contained in Note 30 to the financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

Subsidiaries

Subsidiaries are all entities over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

Joint Arrangements

AASB 11 *Joint Arrangements* defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations.

LifeHealthcare Group Limited has determined that it has only joint ventures.

Joint ventures

Joint ventures are those joint arrangements which provide the venturer with the right to the net assets of the arrangements. Interests in joint ventures are accounted for using the equity method in accordance with AASB 128 *Associates and Joint Ventures*. Under this method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If the venturer's share of losses of a joint venture equals or exceeds its interest in the joint venture, the venturer discontinues recognising its share of further losses.

The venturer's share in the joint ventures gains or losses arising from transactions between a venturer and its joint venture are eliminated.

Adjustments are made to the joint ventures accounting policies where they are different from those of the venturer for the purpose of the consolidated financial statements.

(b) Business combinations

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(b) Business combinations

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a gain on bargain purchase may arise on the acquisition date, this is calculated by comparing the consideration transferred and the amount of non-controlling interest in the acquiree with the fair value of the net identifiable assets acquired. Where consideration is greater than the net assets acquired, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a gain from bargain purchase recognised in profit or loss.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through profit or loss.

(c) Income Tax

The tax expense recognised in the consolidated statement of comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(d) Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Sale of goods

Revenue derived from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery to the customer.

Interest income

Interest is recognised using the effective interest method.

(e) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, deposits at call and short-term investments with original maturities of three months or less which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within borrowings in current liabilities on the consolidated balance sheet.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the first-in-first-out basis and are net of any rebates and discounts received. Cost of inventory includes freight costs for delivery.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the costs necessary to make the sale. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

(g) Financial instruments

Financial assets

Financial assets are classified in the following categories:

- financial assets at fair value through profit or loss
- loans and receivables

All income and expenses relating to financial assets are recognised in the consolidated statement of comprehensive income in the 'finance income' or 'finance costs' line item respectively.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(g) Financial instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

Trade receivables are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

The Group's trade and most other receivables fall into this category of financial instruments.

Discounting is omitted where the effect of discounting is considered immaterial.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (eg. more than 30 days overdue) are considered indicators that the trade receivable is impaired.

Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the consolidated statement of comprehensive income line items 'finance costs' or 'finance income'.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired.

The Group's financial liabilities include borrowings and trade and other payables, which are measured at amortised cost using the effective interest rate method.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 are accounted for at fair value through profit or loss.

Hedging

On initial recognition of the hedge, documentation is prepared which shows the relationship between the hedged item and the hedging instrument, the risk management plan for the hedge and the methods for testing prospective and retrospective effectiveness.

Cash flow hedges

Where the risk management plan is to reduce variability in cashflows for a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss – the hedge is deemed to be a cash flow hedge.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(g) Financial instruments

The effective portion of the change in the fair value of the derivative is taken to other comprehensive income until the period in which the non-financial asset affects profit or loss. Any ineffective portion of the change in fair value of the derivative is taken immediately to profit or loss.

Impairment of financial assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is recognised through the use of an allowance account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (eg. more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss. In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments. The Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

(h) Impairment of non-financial assets

At the end of each reporting period, the Group determines whether there is any evidence of an impairment indicator for non-financial assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the assets is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(h) Impairment of non-financial assets

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(i) Property, Plant and Equipment

Property, plant and equipment is carried at its cost less any accumulated depreciation and any impairment losses. Cost includes purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

| Fixed asset class | Useful life |
|----------------------------------|--------------|
| Plant and Equipment | 3 - 7 years |
| Furniture, Fixtures and Fittings | 3 - 10 years |
| Leasehold improvements | 5 years |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(j) Intangible Assets

Goodwill

Goodwill is not amortised but is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the portion of carrying amount of goodwill related to the entity sold.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(j) Intangible Assets

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 7.5 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Other intangible assets

Other intangible assets such as supply contracts acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is expensed to profit or loss. Amortisation is calculated on a straight-line basis over periods generally ranging from 2 to 5 years.

(k) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(l) Borrowing costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid between 30 and 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

(n) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All short-term employee benefit obligations are presented as provisions.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(n) Employee benefits

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(iii) Share-based payments

The Group provides benefits to its employees in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The cost of these equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to profit or loss is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

If the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or it is otherwise beneficial to the employee, as measured at the date of modification.

If an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(o) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(o) Provisions

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the consolidated statement of comprehensive income.

Provisions recognised represent the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised cost for liquidity services and amortised over the period of the facility to which it relates.

(q) Earnings per share

The Group presents basic and diluted earnings per share information for its ordinary shares.

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(r) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects.

(s) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO).

(t) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(t) Goods and Services Tax (GST)

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated balance sheet.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(u) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian Dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or where they are deferred in equity as qualifying hedges.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(u) Foreign currency transactions and balances

Foreign currency translation

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(v) Change in accounting policy

The Group changed its accounting policy relating to capitalisation of freight costs in inventory.

The aggregate effect of the change in accounting policy on the annual financial statements for the year ended 30 June 2016 is disclosed at note 25.

(w) Adoption of new and revised accounting standards

During the current year, no standards became mandatory to be adopted retrospectively by the Group.

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(x) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

| Title of standard | Nature of change | Impact | Mandatory application date/ Date of adoption by Group |
|--|--|---|---|
| AASB 9 <i>Financial Instruments</i> | AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. | <p>Following the changes approved by the AASB in December 2014, the Group no longer expects any material impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities.</p> <p>The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>The Group have not yet determined the extent of the impact of this standard.</p> | <p>Mandatory for financial years commencing on or after 1 January 2018.</p> <p>Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted.</p> <p>Date mandatory for Group: 1 July 2018.</p> |

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(x) New Accounting Standards and Interpretations

| Title of standard | Nature of change | Impact | Mandatory application date/ Date of adoption by Group |
|---|---|--|---|
| AASB 15 <i>Revenue from Contracts with Customers</i> | <p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.</p> <p>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.</p> <p>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 (eg 1 July 2017), ie 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.</p> | The Group have not yet determined the extent of the impact of this standard. | Date mandatory for Group: 1 July 2018. |

Notes to the Financial Statements

For the Year Ended 30 June 2017

2 Summary of Significant Accounting Policies

(x) New Accounting Standards and Interpretations

| Title of standard | Nature of change | Impact | Mandatory application date/ Date of adoption by Group |
|-------------------|--|--|---|
| AASB 16 Leases | AASB 16 Leases requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value | AASB 16 will result in lessees recognising most leases on the balance sheet. The Group have not yet determined the extent of the impact of this standard. | Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the Group: 1 July 2019. |

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

Impairment of goodwill

In accordance with AASB 136 Impairment of Assets, the Company is required to estimate the recoverable amount of goodwill at each reporting period.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate and using a terminal value to incorporate expectations of growth thereafter.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in revenue and EBITDA;
- timing and quantum of future capital expenditure;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group's review includes the key assumptions related to the sensitivity in the cash flow projections. Further details are provided in Note 13 to the consolidated financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2017

3 Critical accounting estimates and judgements

Deferred tax assets

The Group has recorded deferred tax assets relating to tax losses and timing differences including an inventory fair value uplift resulting from a tax cost base reset (refer Note 6). These deferred tax assets have been recorded because it is considered probable that they will be utilised by the Group. The calculation of the fair value uplift and the assessment of probability are items of judgement, and the actual outcomes in relation to the utilisation of these deferred tax assets may differ from management's estimates and judgement.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Provision for doubtful debts

Collectability of accounts receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is raised when some doubt as to collection exists and an allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Notes to the Financial Statements

For the Year Ended 30 June 2017

4 Revenue and Other Income

Revenue from continuing operations

| | 2017 \$'000 | 2016 \$'000 |
|----------------------|----------------|----------------|
| Sales revenue | | |
| - Sale of goods | 126,708 | 114,770 |
| Finance income | | |
| - Interest income | - | 17 |
| Total Revenue | 126,708 | 114,787 |

5 Result for the Year

(a) Transaction related expenses

In the year ended 30 June 2017 the Group has reassessed the contingent consideration for Medical Vision Australia Cardiology & Thoracic Pty Limited ("MVA") and M4 Healthcare Pty Limited ("M4"):

- The contingent consideration for MVA of \$1,401,000 was paid on 24 May 2017. The consideration was increased by \$833,000 from 30 June 2016 and is accounted for in the profit and loss statement.
- Consideration payable for M4 in the amount of \$300,000 was reversed in the profit and loss statement as conditions for payment were not satisfied.
- Additional transaction costs of \$117,439 were expensed in relation to the acquisition of Oceania Orthopaedics Pty Limited (refer Note 36 for details)

(b) Finance costs

| | 2017 \$'000 | 2016 \$'000 |
|----------------------------|----------------|----------------|
| Bank loans and overdrafts | 2,074 | 1,993 |
| Other net finance costs | 294 | 314 |
| Total finance costs | 2,368 | 2,307 |

(c) Other expenses

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Defined contribution superannuation expense | 1,539 | 1,680 |
| Rental expenses on operating leases: | | |
| Minimum lease payments | 1,213 | 1,103 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

6 Tax

(a) The major components of tax expense/(benefit) comprise:

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|---------------------------------|----------------|-------------------------------|
| Current tax | 2,574 | 987 |
| Deferred tax | 1,202 | 2,774 |
| Total income tax expense | 3,776 | 3,761 |

* Refer note 25 for details.

(b) Reconciliation of income tax to accounting profit:

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|--|----------------|-------------------------------|
| Profit before tax | 10,920 | 11,325 |
| Tax rate | 30 % | 30 % |
| | 3,276 | 3,398 |
| Add: | | |
| Tax effect of: | | |
| - entertainment | 53 | 48 |
| - transaction costs | 195 | - |
| - impairment of investments | 134 | - |
| - sundry items | (12) | 4 |
| - option expense | 130 | 115 |
| - adjustments for current tax of prior periods | - | 196 |
| Income tax expense | 3,776 | 3,761 |

(c) Income tax relating to each component of other comprehensive income:

| | 2017 Tax (Expense) Benefit \$'000 | 2016 Tax (Expense) Benefit \$'000 |
|------------------|---|---|
| Cash flow hedges | (191) | 950 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

6 Tax

(d) Deferred tax asset

| | Opening balance (restated*) \$'000 | Charged to profit or loss \$'000 | Charged directly to equity \$'000 | Closing balance \$'000 |
|--|---|---|--|------------------------------|
| Deferred tax assets | | | | |
| Provisions | 1,311 | (98) | - | 1,213 |
| Derivatives | (423) | - | 950 | 527 |
| Inventory | 5,709 | (2,093) | - | 3,616 |
| IPO transaction costs | 849 | (195) | - | 654 |
| Other items | 422 | (107) | - | 315 |
| Tax losses | 721 | (721) | - | - |
| | 8,589 | (3,214) | 950 | 6,325 |
| Offset by deferred tax liability relating to: | | | | |
| Intangible asset | (551) | 485 | (502) | (568) |
| Balance at 30 June 2016 | 8,038 | (2,729) | 448 | 5,757 |
| Provisions | 1,213 | 181 | - | 1,394 |
| Derivatives | 527 | - | (191) | 336 |
| Inventory | 3,616 | (976) | - | 2,640 |
| IPO transaction costs | 654 | (369) | - | 285 |
| | 6,010 | (1,164) | (191) | 4,655 |
| Offset by deferred tax liability relating to: | | | | |
| Intangible assets | (568) | 368 | - | (200) |
| Other items | 315 | (406) | - | (91) |
| Balance at 30 June 2017 | 5,757 | (1,202) | (191) | 4,364 |

* Refer note 25 for details.

Notes to the Financial Statements

For the Year Ended 30 June 2017

7 Operating Segments

Segment information

Identification of reportable segments

The Group has identified its operating segment based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. The Group consists of one operating segment being the sale of Medical devices in Australia and New Zealand.

Sale of Medical devices

The sale of Medical devices in Australia and New Zealand consists of sales to external customers of key product lines including:

- Spine
- Orthopaedics and Biologics
- Surgical Technologies
- Cardio Vascular and Point-of-Care Ultrasound
- Neurophysiology
- Operating Room Capital

Notes to the Financial Statements

For the Year Ended 30 June 2017

7 Operating Segments

(a) Segment performance

Reconciliation of segment operating profit to the consolidated statement of comprehensive income

| | Medical devices | |
|---------------------------------------|------------------------|---------------|
| | 2017 | 2016 |
| | \$'000 | \$'000 |
| Revenue | | |
| Revenue from external customers | 126,708 | 114,770 |
| EBITDA | 19,704 | 19,061 |
| Share in associate | (444) | - |
| Depreciation and amortisation expense | (5,972) | (5,429) |
| Finance costs | (2,368) | (2,307) |
| Income tax (expense)/benefit | (3,776) | (3,761) |
| Total net profit after tax | 7,144 | 7,564 |

(b) Geographical information

In presenting information on the basis of geographical segments, segment revenue and non-current assets are based on the geographical location of customers and the assets.

| | 2017 | | 2016 | |
|-------------|----------------|---------------------------|----------------|---------------------------|
| | Revenue | Non-current assets | Revenue | Non-current assets |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Australia | 120,973 | 41,887 | 109,145 | 44,719 |
| New Zealand | 5,735 | 151 | 5,625 | 147 |

(c) Major customers

LifeHealthcare does not have any single customer who exceeds 10% of the total revenue of the Group.

8 Cash and cash equivalents

| | 2017 | 2016 |
|--------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash at bank and in hand | 5,503 | 4,051 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

9 Trade and other receivables

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------|----------------|----------------|
| Trade receivables | 22,558 | 23,859 |
| Provision for impairment | (a) (22) | - |
| | <u>22,536</u> | <u>23,859</u> |
| Prepayments | 823 | 748 |
| Amounts due from joint ventures | - | 39 |
| Other receivables | 831 | 206 |
| | <u>24,190</u> | <u>24,852</u> |

(a) Impairment of receivables

Reconciliation of changes in the provision for impairment of receivables is as follows:

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------------|----------------|----------------|
| Balance at beginning of the year | - | - |
| Additional impairment loss recognised | 22 | - |
| Balance at end of the year | <u>22</u> | <u>-</u> |

(b) Aged analysis

The ageing analysis of receivables past due but not impaired is as follows:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Less than 90 days (past due no impaired) | 2,647 | 1,464 |
| 91-120 days (past due not impaired) | 244 | 159 |
| 120+ days (past due not impaired) | 522 | 432 |
| | <u>3,413</u> | <u>2,055</u> |

Notes to the Financial Statements

For the Year Ended 30 June 2017

9 Trade and other receivables

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

(c) Classification as trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of these amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 - 60 days and therefore all are classified as current. The Group's impairment and other accounting policies for trade and other receivables are outlined in note 2(g).

Other receivables generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained.

(d) Fair value of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

10 Inventories

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|----------------|----------------|-------------------------------|
| Finished goods | 37,612 | 36,282 |

Inventory represents finished goods available for resale valued at lower of cost and net realisable value.

* Refer note 25 for details.

Notes to the Financial Statements

For the Year Ended 30 June 2017

11 Derivative financial assets

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Forward foreign exchange and currency options contracts - cash flow hedges | - | 452 |

The Group has maintained a policy of hedging its foreign currency purchasing commitments on a rolling basis, 12 months forward, in order to cover its foreign exchange exposure. The Group's policy has been to have hedges in place to cover at least 90% of its United States Dollar denominated purchases. In 2017, the Group expanded its policy and commenced hedging the Euro denominated purchases, and have hedges in place to cover at least 90% of Euro denominated purchases.

12 Property, plant and equipment

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|--|----------------|-------------------------------|
| Plant and equipment | | |
| At cost | 25,123 | 21,473 |
| Accumulated depreciation | (15,563) | (11,361) |
| Total plant and equipment | 9,560 | 10,112 |
| Furniture, fixtures and fittings | | |
| At cost | 225 | 175 |
| Accumulated depreciation | (165) | (150) |
| Total furniture, fixtures and fittings | 60 | 25 |
| Leasehold improvements | | |
| At cost | 2,083 | 1,464 |
| Accumulated depreciation | (1,299) | (1,309) |
| Total leasehold improvements | 784 | 155 |
| Total plant and equipment | 10,404 | 10,292 |

* Refer note 25 for details.

Notes to the Financial Statements

For the Year Ended 30 June 2017

12 Property, plant and equipment

Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | Plant and Equipment \$'000 | Furniture, Fixtures and Fittings \$'000 | Leasehold Improvements \$'000 | Total \$'000 |
|---------------------------------------|---|--|-------------------------------------|--------------------------------|
| Consolidated | | | | |
| Year ended 30 June 2017 | | | | |
| Balance at the beginning of year | 10,112 | 25 | 155 | 10,292 |
| Additions | 4,001 | 50 | 887 | 4,938 |
| Disposals - written down value | (129) | - | 9 | (120) |
| Depreciation expense | (4,424) | (15) | (267) | (4,706) |
| Balance at the end of the year | 9,560 | 60 | 784 | 10,404 |
| | Plant and Equipment (restated*) \$'000 | Furniture, Fixtures and Fittings \$'000 | Leasehold improvements \$'000 | Total (restated*) \$'000 |
| Consolidated | | | | |
| Year ended 30 June 2016 | | | | |
| Balance at the beginning of year | 9,581 | 42 | 130 | 9,753 |
| Additions | 5,026 | 16 | 101 | 5,143 |
| Disposals - written down value | (785) | - | - | (785) |
| Depreciation expense | (3,710) | (33) | (76) | (3,819) |
| Balance at the end of the year | 10,112 | 25 | 155 | 10,292 |

* Refer note 25 for details.

Notes to the Financial Statements

For the Year Ended 30 June 2017

13 Intangible Assets

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------------|----------------------|
| Computer software | | |
| Cost | 3,824 | 3,655 |
| Accumulated amortisation and impairment | (3,480) | (3,345) |
| | <u>344</u> | <u>310</u> |
| Goodwill | | |
| Cost | 64,565 | 64,565 |
| Accumulated impairment | (38,307) | (38,307) |
| | <u>26,258</u> | <u>26,258</u> |
| Supply contracts | | |
| Cost | 3,411 | 3,410 |
| Accumulated amortisation | (2,743) | (1,551) |
| | <u>668</u> | <u>1,859</u> |
| Total intangible assets | <u>27,270</u> | <u>28,427</u> |

Notes to the Financial Statements

For the Year Ended 30 June 2017

13 Intangible Assets

Reconciliation Detailed Table

| | Computer software \$'000 | Goodwill \$'000 | Supply contracts \$'000 | Total \$'000 |
|--------------------------------------|--------------------------------|--------------------|-------------------------------|-----------------|
| Consolidated | | | | |
| Year ended 30 June 2017 | | | | |
| Balance at the beginning of the year | 310 | 26,258 | 1,859 | 28,427 |
| Additions | 169 | - | - | 169 |
| Disposals | - | - | - | - |
| Amortisation | (135) | - | (1,191) | (1,326) |
| Closing value at 30 June 2017 | 344 | 26,258 | 668 | 27,270 |
| | Computer software \$'000 | Goodwill \$'000 | Supply contracts \$'000 | Total \$'000 |
| Consolidated | | | | |
| Year ended 30 June 2016 | | | | |
| Balance at the beginning of the year | 322 | 19,500 | 1,750 | 21,572 |
| Additions | 98 | 6,758 | 1,672 | 8,528 |
| Disposals | - | - | - | - |
| Amortisation | (110) | - | (1,563) | (1,673) |
| Closing value at 30 June 2016 | 310 | 26,258 | 1,859 | 28,427 |

Impairment disclosures

For the purpose of impairment testing, the group has one cash-generating unit (CGU) to which goodwill is allocated:
LifeHealthcare Group Limited

Notes to the Financial Statements

For the Year Ended 30 June 2017

13 Intangible Assets

(a) Impairment tests for goodwill

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

(b) Key assumptions

In performing the value-in-use calculations for each CGU, the Group has applied the following key assumptions:

- Revenue forecasts for a 5 year forecast period based on management's detailed FY17 budget and FY17-FY20 projections;
- A growth rate to extrapolate cashflows beyond the 5 year period of 3%; and
- A discount rate applied to forecast pre-tax cash flows of 14.0%.

Discount rates reflect the Group's estimate of the time value of money and the risks specific to CGU that are not already reflected in the cash flows. In determining appropriate discount rates, regard has been given to the weighted average cost of capital of the Group and business risks.

Management's assessment of reasonably possible changes in the key assumptions has not identified any that would cause the carrying amount to be higher than the recoverable amount of the CGU.

14 Trade and other payables

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------|----------------|----------------|
| Trade payables | 15,803 | 17,261 |
| Accrued commissions and bonuses | 3,469 | 3,497 |
| Other payables (a) | 3,287 | 3,457 |
| | 22,559 | 24,215 |

Trade payables are unsecured and usually paid 30-90 days from recognition.

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

(a) Other payables is made up of taxes payable (GST, PAYG and payroll tax) as well as small incidental payables.

Notes to the Financial Statements

For the Year Ended 30 June 2017

15 Borrowings

| | 2017 \$'000 | 2016 \$'000 |
|----------------------|----------------|----------------|
| CURRENT | | |
| Secured liabilities: | | |
| Bank loans | 2,854 | 2,856 |
| NON-CURRENT | | |
| Secured liabilities: | | |
| Bank loans | 30,959 | 33,808 |

(a) The carrying amounts of non-current assets pledged as collateral for liabilities are:

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|-------------------------------|----------------|-------------------------------|
| First Mortgage: | | |
| Property, plant and equipment | 10,404 | 10,292 |

* Refer note 25 for details.

(b) Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

(c) Fair value of borrowings

For all borrowings, the carrying value approximates fair value, since the interest payable on these borrowings is either close to current market rates or the borrowings are of a short-term nature.

Notes to the Financial Statements

For the Year Ended 30 June 2017

15 Borrowings

(d) Terms and conditions of borrowings as at 30 June 2017

Lending facilities are provided under a Senior Facilities Agreement incorporating the following facilities:

- The Multi Option Facility is renewable annually in October. Components of the facility comprise bank guarantees, corporate credit cards, cash advance facility and a bank overdraft. The facility has a limit of \$8,000,000 (30 June 2016: \$8,000,000). At 30 June 2017, the facility was drawn to \$687,652 for bank guarantees and corporate credit cards (30 June 2016: \$562,222 for bank guarantees and corporate credit cards).
- A loan in the form of a cash advance was drawn down under a Cash Advance Facility and is repayable at October 2018. This facility was drawn down to \$34,000,000 at 30 June 2017 (30 June 2016: \$37,000,000).

(e) Refinance of borrowings

On the 31st July 2017, the Group refinanced all bank debt facilities with its long term banking partner, ANZ. The debt facilities have been refinanced at lower margins providing improved rates and fees, improved reporting covenants and the facilities extending for a further 3 years maturing in 2020.

16 Other Financial Liabilities

| | 2017 \$'000 | 2016 \$'000 |
|-----------------|----------------|----------------|
| CURRENT | | |
| Deferred income | 137 | 259 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

17 Derivative financial liabilities

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| CURRENT | | |
| Forward foreign exchange and currency options contracts - cash flow hedges (a) | 786 | 1,563 |
| NON-CURRENT | | |
| Interest rate swap contracts (b) | 336 | 647 |

(a) Forward foreign exchange and currency options contracts - cashflow hedges

The Group has maintained a policy of hedging its foreign currency purchasing commitments on a rolling basis, 12 months forward, in order to cover its foreign exchange exposure. The Group's policy is to have hedges in place to cover at least 90% of its US Dollar exposure, on a rolling monthly basis. In 2017, The Group has extended its hedging policy to include Euro exposure. The Group has hedges in place to cover at least 90% of its Euro exposure, on a rolling monthly basis.

(b) Interest rate swap contracts - cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 4.01% (2016: 4.16%). It is policy to protect 50% of the non-current portion of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

18 Provisions

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| CURRENT | | |
| Warranties (a) | 164 | 207 |
| Employee benefits (b) | 1,556 | 1,474 |
| | 1,720 | 1,681 |
| NON-CURRENT | | |
| Employee benefits - long service leave (b) | 282 | 239 |
| Make good provision (c) | 343 | 314 |
| | 625 | 553 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

18 Provisions

a) Warranties

Extended warranty obligations relates to the sale of Point-of-Care Ultrasound systems, for which no extended warranty cover has been purchased from the manufacturer.

| | Warranties 2017 \$'000 | Warranties 2016 \$'000 |
|---------------------------|------------------------------|------------------------------|
| Current | | |
| Opening balance | 207 | 405 |
| Provisions used | (43) | (198) |
| Balance at 30 June | 164 | 207 |

b) Employee benefits

The provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those employees who are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of \$1,556,000 (2016: \$1,474,000) is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The above amounts reflect leave that is not expected to be taken or paid within the next 12 months.

Current employee benefits not expected to be settled within the next 12 months

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Current leave obligations expected to be settled after 12 months | 282 | 239 |

c) Make good provisions

| | Make good provision 2017 \$'000 | Make good provision 2016 \$'000 |
|---------------------------|--|--|
| Non-current | | |
| Opening balance | 314 | 291 |
| Additions/(reversals) | 29 | 23 |
| Balance at 30 June | 343 | 314 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

19 Contributed equity

| | 2017 \$'000 | 2016 \$'000 |
|---|-----------------------------|----------------------|
| 43,003,407 (2016: 42,537,651) Ordinary shares | <u>27,185</u> | <u>26,276</u> |
| | Number of shares | \$'000 |
| Share capital | | |
| Share capital as at 1 July 2015 | 42,537,651 | 26,276 |
| Balance as at 30 June 2016 | <u>42,537,651</u> | <u>26,276</u> |
| Exercise of employee options | 155,144 | 239 |
| Dividend reinvestment plan | <u>310,612</u> | <u>670</u> |
| | 465,756 | 909 |
| Balance as at 30 June 2017 | <u>43,003,407</u> | <u>27,185</u> |

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Group does not have a limited amount of authorised capital or par value in respect of its shares.

(a) Dividend Reinvestment Plan

On 21 February 2017, the Group activated the Dividend Reinvestment Plan ("DRP") for the interim dividend with a discount of 2.5%.

(b) Options

- (i) For information relating to the LifeHealthcare Group Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 35 Share-based payments.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer to the Remuneration Report.

(c) Capital Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There are no externally imposed capital requirements.

Notes to the Financial Statements

For the Year Ended 30 June 2017

20 Retained Earnings

| | 2017 \$'000 | 2016 (Restated*) \$'000 |
|-----------------------------------|----------------|-------------------------------|
| Balance 1 July | 17,916 | 15,669 |
| Profit for the year | 7,144 | 7,564 |
| Ordinary dividends paid (Note 26) | (5,859) | (5,317) |
| Balance 30 June | 19,201 | 17,916 |

* Refer note 25 for details.

21 Reserves

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Foreign currency translation reserve (a) | | |
| Balance 1 July | 230 | 173 |
| Currency translation differences arising during the year | 24 | 57 |
| Balance 30 June | 254 | 230 |
| Cash flow hedge reserve (c) | | |
| Balance 1 July | (1,231) | 987 |
| Reclassification adjustments - Transfer to profit or loss (gross) | 637 | (3,168) |
| Reclassification adjustments - Deferred tax asset/(liability) | (191) | 950 |
| Balance 30 June | (785) | (1,231) |
| Share-based payments reserve (b) | | |
| Balance 1 July | 999 | 612 |
| Employee share plan expense | 427 | 387 |
| Balance 30 June | 1,426 | 999 |
| Total reserves | 895 | (2) |

(a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(b) Share-based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised; and
- the grant date fair value of shares issued to employees.

Notes to the Financial Statements

For the Year Ended 30 June 2017

21 Reserves

(c) Cash flow hedge reserve

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

22 Earnings per Share

| | 2017 cents | 2016 cents |
|---|------------------------|------------------------|
| (a) Basic earnings per share attributable to ordinary equity holders of the Group | 16.7 | 17.8 |
| (b) Diluted earnings per share attributable to ordinary equity holders of the Group | 16.7 | 17.7 |
| (c) Earnings used in calculating earnings per share | 2017 \$'000 | 2016 \$'000 |
| Basic earnings per share | 7,144 | 7,564 |
| Diluted earnings per share | 7,144 | 7,564 |
| (d) Weighted average number of shares used as denominator | 2017 Number | 2016 Number |
| Number of ordinary shares used as the denominator in calculating basic earnings per share | 42,676,732 | 42,537,651 |
| Number of ordinary shares used as the denominator in calculating diluted earnings per share | 42,854,528 | 42,773,721 |

As a result of the change in accounting policy for cost of inventories and property, plant and equipment (please refer to Note 25) the Group adjusted basic and diluted earnings per share for the year ended 30 June 2016. As result of the change basic earnings per share were adjusted from 17.6 to 17.8 for the year ended 30 June 2016, diluted earnings from share from 17.5 to 17.7.

Notes to the Financial Statements

For the Year Ended 30 June 2017

23 Capital and Leasing Commitments

Non-Cancellable Operating Leases

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Minimum lease payments under non-cancellable operating leases: | | |
| - not later than one year | 1,108 | 1,115 |
| - between one year and five years | 2,955 | 2,598 |
| | 4,063 | 3,713 |

Operating leases have been taken out for leased premises and office equipment which expire within 1 to 5 years. Lease payments are increased on an annual basis to reflect market rentals. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

24 Financial Risk Management

The Group is exposed to a variety of financial risks, market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group uses derivative financial instruments such as forwards and options foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis, in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of movement in portfolios to determine market risk.

Financial instruments used

The Group holds the following financial instruments:

- Cash and cash equivalents;
- Trade and other receivables;
- Trade and other payables;
- Borrowings; and
- Derivative financial instruments.

Objectives, policies and processes

Risk management is carried out by management under delegated power from the Board of Directors. The Board identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

Specific information regarding the mitigation of each financial risk to which the Group is exposed is provided below.

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Financial Risk Management

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

At the reporting date, these reports indicate that the Group expects to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Financial Risk Management

Liquidity risk

The Group's liabilities have contractual maturities which are summarised below:

| | Less than 6 months | | 6 to 12 months | | 1 to 2 years | | 2 to 5 years | | Total contractual cashflows | | Carrying amount (assets)/liabilities | |
|---|--------------------|---------------|----------------|--------------|---------------|--------------|--------------|---------------|-----------------------------|---------------|--------------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Non-derivatives | | | | | | | | | | | | |
| Trade and other payables | 22,147 | 23,494 | - | - | - | - | - | - | 22,147 | 23,494 | 22,147 | 23,494 |
| Borrowings and interest | 2,153 | 2,414 | 2,124 | 1,834 | 31,397 | 4,632 | - | 31,504 | 35,674 | 40,384 | 33,813 | 36,664 |
| Deferred service revenue | 56 | 90 | 24 | 90 | - | 79 | - | - | - | - | 80 | 259 |
| | 24,356 | 25,998 | 2,148 | 1,924 | 31,397 | 4,711 | - | 31,504 | 57,821 | 63,878 | 56,040 | 60,417 |
| Derivatives and options | | | | | | | | | | | | |
| Net settled (forward exchange contracts - cash flow hedges) | 469 | 574 | 316 | 537 | - | - | - | - | - | - | 785 | 1,111 |
| Net settled (interest rate swaps) | - | - | - | - | 336 | - | - | 647 | 336 | 647 | 336 | 647 |
| | 469 | 574 | 316 | 537 | 336 | - | - | 647 | 336 | 647 | 1,121 | 1,758 |
| Total | 24,825 | 26,572 | 2,464 | 2,461 | 31,733 | 4,711 | - | 32,151 | 58,157 | 64,525 | 57,161 | 62,175 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Financial Risk Management

Market risk

(i) Foreign currency risk

Most of the Group's transactions are carried out in Australian Dollars. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in United States Dollars (USD), New Zealand Dollars (NZD) and Euros (Euro).

To mitigate the Group's exposure to foreign currency risk, non-Australian Dollar cash flows are monitored and forward exchange contracts are entered into in accordance with Group's risk management policies.

In order to monitor the effectiveness of this policy, the CFO receives a monthly report showing the settlement date of transactions denominated in non-Australian Dollar currencies.

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:

| | USD | NZD | Euro | Other currencies |
|---|--------|--------|--------|---------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2017 | | | | |
| Trade and other receivables | - | 1,425 | - | - |
| Trade and other payables | 8,156 | 105 | 590 | 31 |
| Forward foreign exchange and currency options contracts | 30,802 | - | - | - |
| 2016 | | | | |
| Trade and other receivables | - | 1,861 | - | - |
| Trade and other payables | 7,124 | 2 | 455 | 216 |
| Forward foreign exchange and currency options contracts | 44,521 | - | - | - |

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Financial Risk Management

If the Australian Dollar had strengthened and weakened against the USD, NZD and Euro by +/-10% (30 June 2016: 10%) respectively then this would have had the following impact:

| | 2017 | | 2016 | |
|----------------------|-------|---------|-------|---------|
| | +10% | -10% | +10% | -10% |
| USD | | | | |
| Net results (\$'000) | 741 | (906) | 655 | (801) |
| Equity (\$'000) | 2,939 | (2,126) | 1,658 | (2,026) |
| NZD | | | | |
| Net results (\$'000) | (120) | 147 | 206 | (252) |
| Euro | | | | |
| Net results (\$'000) | 54 | (66) | 40 | (49) |
| Equity (\$'000) | 659 | (525) | - | - |

The percentages for sensitivity analysis have been determined based on the average market volatility in the previous 12 months.

As shown in the above table, the Group is primarily exposed to changes in USD/AUD exchange rates. The sensitivity of profit and loss to changes in the exchange rate arises mainly from the US Dollar denominated financial instruments and the impact on equity arises from foreign forward exchange contracts designated as cashflow hedges.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Net foreign exchange gain/(loss) included in other income/expense | (2) | 39 |

(ii) Cash flow interest rate risk

The Group is exposed to interest rate risk as funds are borrowed at floating rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2016: +1%/-1%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions.

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Financial Risk Management

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

| | | | 2017 | | 2016 | |
|-------------|-----------------|-----------------|--------|--------|--------|--------|
| | 2017 Balance | 2016 Balance | +1.00% | -1.00% | +1.00% | -1.00% |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Derivatives | (336) | (697) | | | | |
| Net results | | | 170 | (170) | 185 | (185) |
| Equity | | | 215 | (215) | 396 | (396) |
| Borrowings | (34,000) | (37,000) | | | | |
| Net results | | | 340 | (340) | (370) | 370 |

(iii) Fair value interest rate risk

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balance at the start and end of the financial year.

The following tables detail the notional principal amounts of interest rate swap contracts and borrowings:

| | Weighted average interest rate | | Balance | |
|--|-----------------------------------|------|----------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | % | % | \$'000 | \$'000 |
| Bank overdraft and bank loan | 4.75 | 4.89 | (34,000) | (37,000) |
| Interest rate swap (notional and principal amount) | 3.27 | 3.44 | (17,000) | (18,500) |

Notes to the Financial Statements

For the Year Ended 30 June 2017

24 Financial Risk Management

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The utilisation of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

Trade receivables consist of a large number of customers, spread across diverse regional areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Board receives monthly reports summarising the turnover, trade receivables balance and aging profile of each of the key customers individually and the Group's other customers analysed by industry sector as well as a list of customers currently transacting on a prepayment basis or who have balances in excess of their credit limits.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Notes to the Financial Statements

For the Year Ended 30 June 2017

25 Change in Accounting Policy

In the year ended 30 June 2017 the Group has changed its accounting policy for cost of inventory and property, plant and equipment by allocating transportation costs for delivery of goods from suppliers to LifeHealthcare warehouses or points of sale. The Group believes that the change provides reliable and more relevant information to the market and corresponds with accounting policies of companies within the industry.

In order to conform with the current period accounting policy comparative information on 30 June 2016 and 30 June 2015 was adjusted retrospectively:

| | 30 June 2016 | | | 1 July 2015 | | |
|---|--------------------------------|--|--------------------|--------------------------------|--|--------------------|
| | Previously stated \$'000 | Impact of accounting policy change \$'000 | Restated \$'000 | Previously stated \$'000 | Impact of accounting policy change \$'000 | Restated \$'000 |
| Consolidated Statement of Comprehensive Income | | | | | | |
| Cost of goods sold | (50,828) | 157 | (50,671) | | | |
| Depreciation and amortisation expense | (5,429) | (64) | (5,493) | | | |
| Income tax expense | (3,733) | (28) | (3,761) | | | |
| Net profit after tax | 7,499 | 65 | 7,564 | | | |
| Consolidated Balance Sheet | | | | | | |
| Inventories | 35,400 | 882 | 36,282 | 30,454 | 792 | 31,246 |
| Property, plant and equipment | 10,118 | 174 | 10,292 | 9,582 | 171 | 9,753 |
| Deferred tax assets | 6,074 | (317) | 5,757 | 8,327 | (289) | 8,038 |
| Retained earnings | 17,177 | 739 | 17,916 | 14,995 | 674 | 15,669 |

The information in the notes disclosures have been adjusted accordingly.

26 Dividends

(a) Ordinary shares

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Final dividend for the year ended 30 June 2016 of 7.5 cents (2015: 7.5 cents) per fully paid share | 3,191 | 3,190 |
| Interim dividend for the year ended 30 June 2017 of 6.25 cents (2016: 5 cents) per fully paid share | 2,668 | 2,127 |
| | <u>5,859</u> | <u>5,317</u> |

(b) Dividends not recognised at the end of the reporting period

In addition to the above, the directors have declared the payment of a franked final dividend of 7.5 cents per fully paid ordinary share.

Notes to the Financial Statements

For the Year Ended 30 June 2017

26 Dividends

- (b) Dividends not recognised at the end of the reporting period

| | Cents per share | Total amount | Expected date of payment |
|--|-----------------|---------------|--------------------------|
| Final dividend | 7.50 | \$ 3,308,934 | 22 September 2017 |
| Franking account | | | |
| | | 2017 | 2016 |
| | | \$'000 | \$'000 |
| The franking credits available for subsequent financial years at a tax rate of 30% (2016: 30%) | | 1,792 | 730 |

27 Related Parties

Key management personnel remuneration

Key management personnel remuneration included within employee expenses for the year is shown below:

| | 2017 | 2016 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Short-term employee benefits | 1,157,409 | 1,364,018 |
| Long-term benefits | - | 80,595 |
| Post-employment benefits | 102,313 | 90,851 |
| Share-based payments | 239,095 | 232,390 |
| | 1,498,817 | 1,767,854 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

27 Related Parties

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2017.

No termination payments were made to Key Management Personnel in 2017 or 2016.

Key management personnel options and rights holdings

Details of options provided as remuneration and shares issued on the exercise of such options together with terms and conditions of the options can be found in the Remuneration Report within the Directors' Report.

(a) The Group's related parties are as follows:

(i) Entities exercising control over the Group:

The ultimate parent entity controlling party within the Group is LifeHealthcare Group Limited.

(ii) Key Management Personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity are considered key management personnel.

For details of remuneration disclosures relating to key management personnel, refer to the Remuneration Report in the Directors' Report.

Other transactions with KMP and their related entities are shown below.

(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Notes to the Financial Statements

For the Year Ended 30 June 2017

28 Remuneration of Auditors

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$ | \$ |
| Remuneration of the auditor of the parent entity, PricewaterhouseCoopers Australia, for: | | |
| Audit and other assurance services | | |
| Audit and review of financial statements | 238,000 | 226,000 |
| Taxation services | 38,000 | 11,000 |
| Total remuneration of PricewaterhouseCoopers Australia | 276,000 | 237,000 |

29 Deed of Cross-Guarantee

The subsidiary's listed below are parties to a deed of cross guarantee under which each company guarantees the debts of the others. Under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 there is no requirement for these subsidiaries to prepare or lodge a financial report and directors' report.

The subsidiaries subject to the deed are:

- LifeHealthcare Finance Pty Limited
- Lifehealthcare Pty Limited
- Lifehealthcare Distribution Pty Limited
- Lifefinance Pty Limited
- Taylor Bryant Pty Limited
- Coefficient Technologies Pty Limited
- Surgical Access Pty Limited
- Central Neurophysiology Supplies Pty Limited
- Austspine Pty Limited
- Lifehealthcare Services Pty Limited
- M4 Healthcare Pty Limited
- Medical Vision Australia Cardiology & Thoracic Pty Limited

These companies represent a closed group for the purposes of the class order.

The consolidated statement of comprehensive income and consolidated balance sheet, comprising the closed group, after eliminating all transactions between parties to the deed of cross guarantee are shown below:

Notes to the Financial Statements

For the Year Ended 30 June 2017

29 Deed of Cross-Guarantee

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|---|----------------|-------------------------------|
| Consolidated Statement of Comprehensive Income | | |
| Revenue | 120,973 | 109,145 |
| Cost of Sales | (58,434) | (49,801) |
| Gross Profit | 62,539 | 59,344 |
| Operating expense | (42,611) | (46,224) |
| Finance costs | (2,367) | (2,294) |
| Profit before income tax | 17,561 | 10,826 |
| Income tax (expense)/benefit | (3,631) | (3,433) |
| Profit after income tax | 13,930 | 7,393 |
| Other comprehensive income | | |
| Changes in the fair value of cash flow hedges | 1,697 | (2,883) |
| Income tax relating to components of other comprehensive income | (509) | 665 |
| Profit attributable to members of the closed group | 15,118 | 5,175 |

* Refer note 25 for details.

Notes to the Financial Statements

For the Year Ended 30 June 2017

29 Deed of Cross-Guarantee

| | 2017 \$'000 | 2016 (restated*) \$'000 |
|--------------------------------------|----------------|-------------------------------|
| Consolidated Balance Sheet | | |
| Current Assets | | |
| Cash and cash equivalents | 5,293 | 3,957 |
| Trade receivables | 21,111 | 21,068 |
| Other receivables | 2,531 | 1,923 |
| Inventories | 36,657 | 35,286 |
| Total Current Assets | 65,592 | 62,234 |
| Non-Current Assets | | |
| Property, plant and equipment | 10,248 | 10,158 |
| Intangible Assets | 27,338 | 28,264 |
| Deferred tax assets | 4,301 | 5,714 |
| Other receivables | - | 390 |
| Total Non-Current Assets | 41,887 | 44,526 |
| Total Assets | 107,479 | 106,760 |
| Current Liabilities | | |
| Trade and other payables | 22,118 | 22,467 |
| Current tax liability | 2,079 | 739 |
| Employee leave provisions | 1,241 | 1,225 |
| Total Current Liabilities | 25,438 | 24,431 |
| Non-Current Liabilities | | |
| Borrowings | 33,813 | 36,664 |
| Derivative financial instrument | 1,121 | 1,563 |
| Employee leave provision | 552 | 450 |
| Other payables and provisions | 451 | 285 |
| Total Non-Current Liabilities | 35,937 | 38,962 |
| Total Liabilities | 61,375 | 63,393 |
| Net Assets | 46,104 | 43,367 |
| Equity | | |
| Issued Capital | 27,184 | 26,275 |
| Reserves | 642 | (235) |
| Retained earnings | 18,278 | 17,327 |
| Total Equity | 46,104 | 43,367 |

* Refer note 25 for details.

Notes to the Financial Statements

For the Year Ended 30 June 2017

30 Interests in Subsidiaries

(a) Composition of the Group

| | Principal place of business / Country of Incorporation | Percentage Owned (%) [*] 2017 | Percentage Owned (%) [*] 2016 |
|--|--|--|--|
| Subsidiaries: | | | |
| LifeHealthcare Finance Pty Limited | Australia | 100 | 100 |
| Lifehealthcare Pty Limited | Australia | 100 | 100 |
| Lifehealthcare Distribution Pty Limited | Australia | 100 | 100 |
| Lifehealthcare Limited | New Zealand | 100 | 100 |
| Lifehealthcare Services Pty Limited | Australia | 100 | 100 |
| Lifefinance Pty Limited | Australia | 100 | 100 |
| Taylor Bryant Pty Limited | Australia | 100 | 100 |
| Coefficient Technologies Pty Limited | Australia | 100 | 100 |
| Coefficient Systems Pty Limited | Australia | 100 | 100 |
| Surgical Access Pty Limited | Australia | 100 | 100 |
| Central Neurophysiology Supplies Pty Limited | Australia | 100 | 100 |
| Austspine Pty Limited | Australia | 100 | 100 |
| M4 Healthcare Pty Limited | Australia | 100 | 100 |
| Medical Vision Australia Cardiology & Thoracic Pty Limited | Australia | 100 | 100 |

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

31 Interests in Joint Arrangements

| | Type of joint arrangement | Principal place of business / Country of Incorporation | Percentage Owned (%) [*] 2017 | Percentage Owned (%) [*] 2016 |
|--------------------------------|------------------------------|--|--|--|
| Joint arrangements: | | | | |
| Electrocore (Aust) Pty Limited | Joint Venture | Australia | 50 | 50 |

* The percentage of ownership interest held is equivalent to the percentage voting rights for all joint arrangements.

Electrocore (Aust) Pty Limited

Lifehealthcare Pty Limited entered into the Electrocore (Aust) Pty Limited ("Electrocore") joint venture on its incorporation on 13 June 2012. Electrocore has the exclusive distribution rights within Australia and New Zealand for a non-invasive device used to treat migraines and another device to treat COPD issues. Sales commenced in the third quarter of the 2012-13 financial year for the migraine product.

Notes to the Financial Statements

For the Year Ended 30 June 2017

31 Interests in Joint Arrangements

Joint Ventures

The joint venture has the same year end as the parent entity.

There are no significant restrictions on the ability of the joint venture to transfer funds to the Group in the form of cash dividends or to repay loans or advances made by the entity.

On 30 June 2017, the joint venture between LifeHealthcare Pty Ltd and Electrocore LLC ceased trading under Electrocore (Aust.) Pty Ltd. Electrocore LLC commenced trading directly with customers in Australia and New Zealand via their website. Following this decision, the joint venture will be terminated and Electrocore (Aust.) Pty Ltd will be de-registered.

The following information is as per the Joint Venture financial statements, adjusted for fair value adjustments at acquisition date and differences in accounting policies, rather than the Group's share.

| Name of Joint Venture | Electrocore 2017 \$'000 | Electrocore 2016 \$'000 |
|--|-------------------------------|-------------------------------|
| Summarised consolidated balance sheet | | |
| Cash and cash equivalents | 9 | 10 |
| Other current assets | 6 | 3 |
| Non-current assets | - | 603 |
| Current financial liabilities | (28) | (7) |
| Other current liabilities | (130) | (114) |
| Net assets | (143) | 495 |
| Summarised consolidated statement of comprehensive income | | |
| Revenue | 13 | 3 |
| Depreciation and amortisation | (3) | (9) |
| Impairment of license | (600) | - |
| Profit/(loss) from continuing operations | (636) | (197) |

Notes to the Financial Statements

For the Year Ended 30 June 2017

31 Interests in Joint Arrangements

Reconciliation of carrying amount of interest in joint venture to summarised financial information for joint ventures accounted for using the equity method:

| | 2017 \$'000 | 2016 \$'000 |
|------------------------------------|----------------|----------------|
| Electrocore | | |
| Group's share of 50% of net assets | (71) | 246 |
| Contributions yet to be paid | - | 144 |
| Write off/impairment | 71 | - |
| Carrying amount | - | 390 |

There are no other joint ventures held by the Group.

32 Fair Value Measurement

The Group measures the following assets and liabilities at fair value on a recurring basis:

- Derivative financial assets and liabilities
- Deferred consideration for business combination

Fair value hierarchy

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

| | |
|---------|--|
| Level 1 | Unadjusted quoted prices 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. |

The table below shows the assigned level for each asset and liability held at fair value by the Group:

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| 30 June 2017 | | | | |
| Recurring fair value measurements | | | | |
| Derivative financial liabilities (current) | - | 786 | - | 786 |
| Derivative financial liabilities (non-current) | - | 336 | - | 336 |
| | - | 1,122 | - | 1,122 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

32 Fair Value Measurement

| Fair value hierarchy | | | | |
|--|---------|---------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Total |
| 30 June 2016 | \$'000 | \$'000 | \$'000 | \$'000 |
| Recurring fair value measurements | | | | |
| Derivative financial assets | - | 452 | - | 452 |
| Derivative financial liabilities (current) | - | (1,563) | - | (1,563) |
| Derivative financial liabilities (non-current) | - | (647) | - | (647) |
| Contingent consideration | - | - | (790) | (790) |
| | - | (1,758) | (790) | (2,548) |

Transfers between levels of the hierarchy

There were no transfers between levels of the fair value hierarchy.

Fair value measurements

Derivative financial instruments are recognised and measured at fair value in the financial statements. The specific valuation techniques used to value the derivative financial instruments include:

- fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- the fair value of forward exchange contracts is determined using forward exchange rates at the balance sheet date.

33 Contingencies

Contingent Liabilities

The Group had the following contingent liabilities at the end of the reporting period:

(i) Guarantees

The Group has a bank guarantee at 30 June 2017 for the performance of certain office lease commitments to a maximum of \$498,456 (2016: \$388,827). This may be called upon by the bank on the next review of the facility agreement which is in October 2017.

Notes to the Financial Statements

For the Year Ended 30 June 2017

34 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net income to net cash provided by operating activities:

| | 2017 \$'000 | 2016 (Restated*) \$'000 |
|---|----------------|-------------------------------|
| Profit for the year | 7,144 | 7,564 |
| Cash flows excluded from profit attributable to operating activities | | |
| Non-cash flows in profit: | | |
| - depreciation and amortisation | 6,032 | 5,429 |
| - make good expense | - | (8) |
| - net gain on disposal of property, plant and equipment | 216 | - |
| - Foreign currency translation reserve | 22 | 59 |
| - share options expensed | 432 | 382 |
| Reinstatement of inventory and property, plant and equipment | (317) | (65) |
| Payout on investments | 473 | - |
| Share of loss of joint venture | 445 | 21 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | |
| - decrease/(increase) in trade and other receivables | 742 | (6,810) |
| - (increase)/decrease in prepayments | (81) | 189 |
| - (increase) in inventories | (1,331) | (4,242) |
| - decrease in deferred tax assets | 1,519 | 3,204 |
| - (decrease)/increase in trade and other payables | (893) | 4,205 |
| - increase in income taxes payable | 1,353 | 590 |
| - increase/(decrease) in provisions | 154 | (390) |
| Cashflow from operations | 15,910 | 10,128 |

* Refer note 25 for details.

35 Share-based Payments

The Group established the LifeHealthcare Group Limited Employee Option Plan (formerly the Lifehealthcare Pty Limited Employee Option Plan) on 5 February 2009. The Employee Option Plan is designed to provide long-term incentives for the CEO, KMP and senior managers to deliver long-term shareholder returns. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

Notes to the Financial Statements

For the Year Ended 30 June 2017

35 Share-based Payments

A summary of the Group options issued is as follows:

| | | Exercise price | Start of the year | Granted/ (forfeited) during the year | Exercised during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|------|------------------|----------------|-------------------|--------------------------------------|---------------------------|--------------------------------|---|
| 2017 | Grant Date | \$ | Number | Number | Number | Number | Number |
| | 28 June 2013 | 1.54 | 690,391 | - | (155,144) | 535,247 | 535,247 |
| | 5 December 2013 | 2.00 | 155,144 | - | - | 155,144 | - |
| | 30 June 2014 | 2.25 | 107,988 | - | - | 107,988 | - |
| | 30 June 2015 | 3.42 | 439,999 | (33,333) | - | 406,666 | - |
| | 28 October 2015 | 3.23 | 312,706 | - | - | 312,706 | - |
| | 25 October 2016 | 1.99 | - | 598,301 | - | 598,301 | - |
| | 21 December 2016 | 1.99 | - | 715,937 | - | 715,937 | - |
| | 21 December 2016 | 0.00 | - | 104,224 | - | 104,224 | - |
| | | | 1,706,228 | 1,385,129 | (155,144) | 2,936,213 | - |
| | | | - | - | - | - | - |
| 2016 | | | | | | | |
| | 28 June 2013 | 1.54 | 690,391 | - | - | 690,391 | - |
| | 5 December 2013 | 2.00 | 155,144 | - | - | 155,144 | - |
| | 30 June 2014 | 2.25 | 107,988 | - | - | 107,988 | - |
| | 28 October 2014 | 2.28 | 158,200 | (158,200) | - | - | - |
| | 30 June 2015 | 3.42 | 439,999 | - | - | 439,999 | - |
| | 28 October 2015 | 3.23 | - | 312,706 | - | 312,706 | - |
| | | 0 | 1,551,722 | 154,506 | - | 1,706,228 | - |

Notes to the Financial Statements

For the Year Ended 30 June 2017

35 Share-based Payments

As at the date of exercise, the weighted average share price of options exercised during the year was \$1.54 (2016: \$Nil).

The weighted average remaining contractual life of options outstanding at year end was 3.23 years (2016: 2.78). The weighted average exercise price of outstanding options at the end of the reporting period was \$2.18 (2016: \$2.32).

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period. Fair value is determined using the Black-Scholes model.

The weighted average fair value of the options granted during the year was \$ 0.70 (2016: \$ 0.79). These values were calculated by using a Black-Scholes option pricing model applying the following inputs:

| | Option issue 1 | Option issue 2 | Option issue 3 | Option Issue 4 | Option Issue 5 |
|---|-----------------|----------------|-----------------|----------------|-----------------|
| Grant date | 5 December 2013 | 30 June 2014 | 28 October 2014 | 30 June 2015 | 28 October 2015 |
| Expiry date | 5 December 2018 | 30 June 2019 | 28 October 2019 | 30 June 2020 | 28 October 2020 |
| Share price at grant date (\$) | 2.00 | 2.26 | 2.27 | 3.50 | 3.05 |
| Exercise price (\$) | 2.00 | 2.25 | 2.28 | 3.42 | 3.23 |
| Weighted average life of the option (years) | 3 | 3 | 3 | 3 | 3 |
| Expected share price volatility | 39.38% | 28.90% | 31.51% | 27.75% | 27.75% |
| Dividend yield | 0% | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 3.54% | 2.99% | 2.985% | 2.42% | 1.975% |
| Fair value at grant date (\$) | 0.726 | 0.637 | 0.827 | 1.1095 | 0.7908 |

Notes to the Financial Statements

For the Year Ended 30 June 2017

35 Share-based Payments

| | Option issue 6 | Option issue 7 | Option issue 8* |
|---|-----------------|------------------|------------------|
| Grant date | 25 October 2016 | 21 December 2016 | 21 December 2016 |
| Expiry date | 25 October 2021 | 21 December 2021 | 21 December 2020 |
| Share price at grant date (\$) | 2.11 | 2.10 | 2.10 |
| Exercise price (\$) | 1.99 | 1.99 | 0.00 |
| Weighted average life of the option (years) | 3 | 3 | 3 |
| Expected share price volatility | 57.00% | 57.00% | 57.00% |
| Dividend yield | 4.950% | 4.950% | 4.950% |
| Risk-free interest rate | 1.620% | 1.620% | 1.620% |
| Fair value at grant date (\$) | 0.5680 | 0.5680 | 1.6723 |

*Option 8 - performance rights issued

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future movements.

Notes to the Financial Statements

For the Year Ended 30 June 2017

35 Share-based Payments

The share price at 30 June 2017 was \$2.22 (2016: \$1.66).

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

An option will vest and become exercisable to the extent that the relevant performance conditions specified at the time of the grant are satisfied. The Board has discretion in relation to those performance conditions. The specific performance conditions attached to the grants of options current at 30 June 2017 are summarised below.

Terms & Conditions of share-based payment arrangement issued on Financial Year 2017

During the year, the Board and Remuneration & Nominations Committee amended the performance terms and conditions of the incentive options issued in Financial Year 2017. AON Hewitt provided advice and recommendations in respect of current market practices and the changes included the following:

- Addition of a performance gateway to achieve minimum Earnings per Share growth rate;
- Addition of a secondary performance condition aligned with a relative shareholder return; and
- Addition of performance rights based on performance conditions

The allocation of options and performance rights are at the sole discretion of the Board. These changes reflect an improved alignment with shareholder expectations.

An incentive option will vest and become exercisable to the extent that the following performance conditions are satisfied:

- The incentive options are tested against the Earnings Per Share Performance Gateway Conditions at the vesting date and if the Incentive Options do not vest on the Vesting Date due to not meeting the Earnings Per Share Performance Gateway Conditions the Incentive Options lapse and will be cancelled.
- The Earnings per Share Performance Gateway Condition is as follows:

| Earnings per share performance | % of Incentive Options that vest |
|--|---|
| Below 7% of Compound Annual Growth Rate (CAGR) | Nil |
| Above 7.0% CAGR | 100% |

If the performance gateway condition is met on the vesting date, the Relative Total Shareholder Return (TSR) Performance Condition is tested.

- TSR of the Company will be measured against selected companies with the S&P/ASX Small Ordinaries Index. The Board may at its discretion adjust the comparator group to take into account events including without limitation takeovers, mergers, delisting or demergers that occur during the Performance Period.
- The TSR Performance condition:

| Relative TSR Performance | % of Incentive Options that vest |
|---|---|
| Relative TSR below 50th percentile of index | Nil |
| Relative TSR above 50th percentile of index | 100% |

- If the incentive options do not vest on the Vesting Date due to meeting the Earnings Per Share Performance Condition, but not meeting the Relative TSR Performance Condition, then the Incentive Options will be tested against the Relative TSR Performance Condition on the first anniversary after the second vesting date. If the Relative TSR Performance Conditions are not met on the second vesting date, the incentive options lapse and will be cancelled.

Notes to the Financial Statements

For the Year Ended 30 June 2017

35 Share-based Payments

- KMP are also entitled and encouraged to participate in the employee share and option arrangements to align their interests with shareholders' interests. Upon resignation or retirement, KMP are paid employee benefit entitlements accrued to the date of resignation or retirement. Any options not exercised before or on the date of termination will lapse.
- Options granted under these arrangements do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share and is valued using the Black-Scholes methodology.

Terms & Conditions of share-based payment arrangement issued post IPO up to Financial Year 2016

Options issued post IPO and up to Financial Year 2017 were subject to the following hurdles:

| Earnings per share performance | % of Incentive Options that vest |
|--|---|
| Below 7% Compound Annual Growth Rate (CAGR) | Nil |
| 7.0% CAGR | 50% |
| Above 7.0% to 11.0% CAGR | Pro-rated vesting on a straight-line basis between 50% and 100% |
| At, or above, 11.0% CAGR | 100% |

Terms & Conditions of share-based payment arrangement issued pre IPO

Options were issued in June 2013, prior to IPO listing date of December 2013, and were made to align select senior executives on a successful IPO outcome. These options have met their vesting conditions and are available to be exercised. These options have been included in KMP option disclosures contained in this Remuneration Report where applicable.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense in relation to options issued under the employee option plan were \$427,000 (2016: \$387,000).

Notes to the Financial Statements

For the Year Ended 30 June 2017

36 Events Occurring After the Reporting Date

Acquisition of Oceania Orthopaedics Pty Ltd

On the 31st July 2017, a wholly owned subsidiary LifeHealthcare Distribution Pty Ltd entered an agreement to acquire all of the issued share capital of Oceania Orthopaedics Pty Ltd ("Oceania"). The acquisition of Oceania by LifeHealthcare was completed on the same day.

On completion, LifeHealthcare entered a 10-year distribution agreement with Implantcast GmbH with effect from the acquisition date of Oceania. Implantcast is a highly specialised orthopaedic innovator of primary, revision and tumor prosthesis with leading capabilities in implant coating and patient specific solutions.

The purchase price will involve:

- A base payment of \$9.7m calculated by reference to Oceania's EBITDA for the FY2017 year and the net cash/debt held by the business at 31 July 2017;
- The base payment has been funded 25% from LifeHealthcare scrip of 1,115,716 ordinary shares (escrowed for 18 months until 31 January 2019) and 75% from ANZ debt facilities,
- An earnout payment based on the financial performance of select products and customers in the subsequent 18-month period ending 31 January 2019 estimated to be approximately \$2.0m with the potential earn-out to be funded from ANZ debt facilities;

Refinancing of banking Facilities

On the 31st July 2017, LifeHealthcare refinanced all bank debt facilities with its long-term banking partner, ANZ. The debt facilities have been refinanced at lower margins providing improved rates and fees, improved reporting covenants and the facilities extending for a further 3 years maturing in 2020.

Final Dividend

On the 22nd August, the Directors declared the payment of a fully franked final dividend of 7.5 cents per fully paid ordinary share.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

37 Parent entity financial information

The following information has been extracted from the books and records of the parent, LifeHealthcare Group Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, LifeHealthcare Group Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

LifeHealthcare Group Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Notes to the Financial Statements

For the Year Ended 30 June 2017

37 Parent entity financial information

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Balance Sheet | | |
| Assets | | |
| Current assets | 908 | - |
| Non-current assets | 85,104 | 85,104 |
| Total Assets | 86,012 | 85,104 |
| Equity | | |
| Contributed equity | 86,012 | 85,104 |
| Statement of Comprehensive Income | | |
| Profit or loss for the year | 5,859 | 5,317 |

* Refer note 25 for details.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 30 June 2017 (2016: nil).

Directors' Declaration

In the Directors' opinion:

1. the financial statements and notes set out on pages 37 - 100 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
3. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 29 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 29.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors.



Matthew Muscio
Director

Dated 22 August 2017
Sydney



Independent auditor's report

To the shareholders of LifeHealthcare Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of LifeHealthcare Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

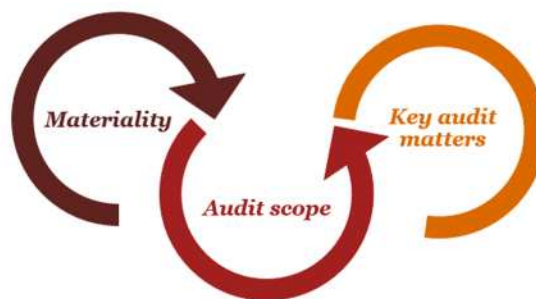
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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



| Materiality | Audit scope | Key audit matters |
|--|---|--|
| <ul style="list-style-type: none"> For the purpose of our audit we used overall group quantitative materiality of \$0.548 million, which represents approximately 5% of the Group's profit before tax. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. | <ul style="list-style-type: none"> The Group sells medical devices to customers across Australia and New Zealand. The medical devices are held in the Group's and customers warehouses on consignment in different locations. The accounting processes are structured around a group finance function at its head office in Sydney. Our audit procedures were mostly performed at Group head office, along with visits to the selected warehouses to perform audit procedures over inventory. Our audit focused on where the Group made subjective judgements, for example, significant accounting estimates involving assumptions and inherently uncertain future events. | <ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Inventory existence and valuation; Goodwill impairment assessment These are further described in the Key audit matters section of our report. |

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Inventory existence and valuation (Refer to note 10) [\$37,612,000]</p> <p>The Group has inventory of \$37.612 million represented by finished goods available for resale valued at lower of cost and net realisable value.</p> <p>This was a key audit matter because of:</p> <ul style="list-style-type: none"> the significant carrying value of inventory, the number of inventory locations in Australia and New Zealand, including substantial consignment to customers and sales representatives, the historical slow movement of stock and judgements used in management's assessment of obsolescence | <p>To test inventory existence we:</p> <ul style="list-style-type: none"> performed stock counts at significant locations, counting samples of stock items from the inventory listing. We tested whether identified variances were appropriately explained by management or adjusted in the final inventory listing; tested stock count documentation prepared by management for other Group warehouses and agreed results to final inventory listing; obtained confirmations of consignment stock from a sample of customers, focusing on those with the largest stock balances on consignment on 30 June 2017; tested controls over cycle count procedures for consignment stock; tested that identified variances were adjusted by management or included in inventory provision calculation. <p>To test management's assessment of slow-moving provision we:</p> <ul style="list-style-type: none"> tested accuracy and completeness of the information used in management's assessment by reconciling to general ledger and supporting documentation; assessed the explanations provided by management on the current profile, age and inventory included or excluded from the provision by management by testing subsequent sales, agreeing to correspondence with suppliers and discussion with sales and inventory supervisors; inspected the physical condition of inventory during stock counts performed. |

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|---|--|
| <p>Goodwill impairment assessment (Refer to note 13) [\$26,258,000]</p> <p>The Group has goodwill of \$ 26.258 million as at 30 June 2017 which is required to be tested for impairment on an annual basis. For the purpose of impairment testing, the Group has one cash-generating unit (CGU) to which goodwill is allocated: LifeHealthcare Group Limited.</p> <p>Management performed a discounted cash flow impairment assessment to ensure the goodwill is supported by its expected future cash flows.</p> <p>This was a key audit matter because of the significant carrying value of the goodwill and judgements used in management's impairment assessment including assumptions over future growth rates and discount rate.</p> | <p>We evaluated management's cash flow forecasts and the process by which they were developed.</p> <p>We compared these forecasts to the Board approved plan and compared previous forecasts to actual results to assess the performance of the business and the historical accuracy of forecasting.</p> <p>To test the methodology supporting management's valuation we:</p> <ul style="list-style-type: none"> - compared revenue forecasts to the historical performance of the business and management's support for the growth assumptions; - compared market and terminal growth assumptions to external market data within medical devices and the healthcare industry; and - compared the discount rate against companies within the healthcare industry. <p>We also considered the sensitivity of the model to changes in assumptions by applying other values within a reasonably possible range.</p> |

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and Corporate Governance Statement included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 13 to 25 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of LifeHealthcare Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of LifeHealthcare Group Limited for the year ended 30 June 2017 included on LifeHealthcare Group Limited's web site. The directors of the Company are responsible for the integrity of LifeHealthcare Group Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'S.T.M.' followed by a stylized flourish.

Shannon Maher
Partner

Sydney
22 August 2017