LifeHealthcare

ASX Release

20 February 2018

LifeHealthcare Group Limited Appendix 4D

For the half year ended 31 December 2017

Results for Announcement to the Market

	31 Dec 2017 $'000	31 Dec 2016 $'000 Restated*	Movement $'000	Movement %
Revenue	67,411	61,697	5,714	9.3%
Profit after income tax expense	2,182	2,809	(627)	(22.3%)
Net profit attributable to security holders	2,340	3,523	(1,183)	(33.6%)

Dividend Distributions

	31 Dec 2017 cents	31 Dec 2016 cents
Interim dividend distribution	7.50 (fully franked)	6.25 (unfranked)

- Interim fully franked dividend of 7.5 cents per security was declared on 20 February 2018 (prior comparable period interim dividend 6.25c unfranked). There is no conduit foreign income in this dividend.
- Record date for interim dividend 5 March 2018 and approximate dividend payment date 21 March 2018.
- The dividend reinvestment plan is not in operation for the interim dividend of 7.5 cents per security.

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LifeHealthcare

Net Tangible Asset Backing

	31 Dec 2017 cents	31 Dec 2016 Cents Restated*
Net tangible assets per security	25	41

Note: * FY16 and H1 FY17 accounts restated due to a change in accounting policy relating to in-bound freight cost included in the cost of inventory. This has decreased profit after income tax expense and net profit attributable to security holders by $0.2m and increased net assets by $0.6m at 31 December 2016.

Signed:

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Dean Taylor
CFO & Company Secretary

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LifeHealthcare Group Limited

ABN 72 166 525 186

Interim Financial Report

For the half-year ended 31 December 2017

LifeHealthcare Group Limited
ABN 72 166 525 186

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by LifeHealthcare Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

LifeHealthcare Group Limited is a company limited by shares, incorporated and domiciled in Australia.

The registered office of the company is:

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

The principal place of business is:

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

Directors' Report

31 December 2017

Your directors present their report on the consolidated entity consisting of LifeHealthcare Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Information on directors

The names of each person who has been a director during the half-year and to the date of this report are:

Bill Best
John Hickey
Donna Staunton (deceased 5 January 2018)
Heith Mackay-Cruise
Matthew Muscio

Company secretary

Dean Taylor was appointed as company secretary on 28 October 2015 and continues in this position as at the date of this report.

Review of operations

LifeHealthcare provides Australian and New Zealand healthcare professionals with innovative medical devices by partnering with world class companies who share the company's vision for innovation and making a real difference to people's lives. Together with supply partners throughout the world, LifeHealthcare works closely with healthcare professionals to ensure the highest standards of patient care and patient outcomes.

Revenue for the six months ended 31 December 2017 was $67.4 million achieving 9.3% revenue growth on the prior comparable period for the six months ended 31 December 2016. 5.8% of this was inorganic growth and 3.8% of this was from organic growth driven by strong performance in implants partially offset by fewer material tender opportunities for capital equipment relative to a strong performance in the prior comparable period.

The key contributors to these results were:

- Double digit organic implant growth in the Spine division and high single digit organic implant growth in the Orthopaedics division (prior to acquisition growth). This has been generated through new active surgeon growth of 27% since June 2017 (14 new active organic surgeons and 23 new active surgeons from acquisitions totaling 37 new active surgeons since June 2017) in the half year and continued penetration from existing synthetic biologics products in Orthopaedics.
- LifeHealthcare remains the leading 3D printed implant provider in Spine with over 100% growth over the prior comparable period and the minimally invasive Spine platform that was launched in December 2015 continues to gain traction with 79% growth over the prior comparable period.
- High single digit consumables growth most notably driven by our instantaneous free wave ratio (iFR) cardiac diagnostics offering in the Endovascular and Respiratory Technology division and our navigation consumables offering in Neurosurgery.
- The acquisition of Oceania Orthopaedics on 31 July 2017 taking LifeHealthcare's market share in complex lower limb orthopaedics to a number two position and the acquisition of an agency agreement with Australian Biotechnologies Pty Limited with effect from 1 November 2017 allowing entry into the allograft biologics market in Spine.

Margin as a percentage of sales increased by 2.5% on the prior comparable period due to an uplift in the Australian dollar and strong implant sales that have a higher margin than capital sales.

Operating expenses as a percentage of sales increased by 2.2% on the prior comparable period due to investment in staff in key growth divisions and higher cost of sale through the agency model in Oceania Orthopaedics that will decline over time as sales from direct sales force increases.

Directors' Report

31 December 2017

Review of operations

Underlying EBITDA of $9.8 million was achieved with 9.9% growth and underlying NPATA was $4.03 million with 10.2% growth.

UnderlyingEBITDA excludes transaction costs of $0.5 million which comprised legal and due diligence costs in relation to the acquisitions of Oceania Orthopaedics and the agency agreement with Australian Biotechnologies Pty Limited and excludes costs associated with the exit of the previous orthopaedics supplier, valued at $1.4 million.

Prudent balance sheet management was maintained focusing on working capital, net debt and cash conversion. The net working capital ratio of 31.0% is the same as the financial year 2017 even after taking advantage of purchasing stock for the second half early to secure better trading terms.

Net debt was $38.4 million resulting in net leverage of 1.82x on an annualised basis at the end of December 2017.

Acquisition of Oceania Orthopaedics Pty Limited
On 31 July 2017, a subsidiary company acquired a 100% interest in Oceania Orthopaedics Pty Limited which resulted in LifeHealthcare Group Limited obtaining control of Oceania Orthopaedics Pty Limited. This acquisition is expected to take the Group's share in the complex lower limb orthopaedics market to number two and reduce costs through economies of scale. The introduction of the Implantcast GmbH implants through this acquisition has resulted in the exit of the previous orthopaedics supplier. The first half of financial year 2018 focused on the integration of the Oceania Orthopaedics business into the Group.

Acquisition of agency agreement with Australian Biotechnologies Pty Limited
On 1 November 2017 LifeHealthcare acquired the right to promote the Australian Biotechnologies (Aus Bio) spinal allograft biologics range from Point Blank Medical for $3,250,000 and entered into a non-stocking commission only ten-year distribution agreement with Aus Bio.

The long-term partnership with Aus Bio forms a key element of LifeHeathcare's biologics strategy, complementing LifeHealthcare's existing synthetics biologics offering and strengthening LifeHealthcare's spine market share in Australia. Aus Bio is a leading provider of allograft biologics in Australia and the partnership with LifeHealthcare will expand market coverage for the Allovance allograft portfolio.

Directors' Report
31 December 2017

Review of operations

A summary of consolidated revenues and results for the half-year is set outbelow:

	Note	31 December 2017 $'000	31 December 2016 $'000 (restated*)
Reported revenue		**67,411**	61,697
Underlying EBITDA		**9,835**	8,949
Transaction expenses	4	**(1,895)**	(453)
Statutory EBITDA		**7,940**	8,496
Depreciation		**(2,240)**	(2,244)
Amortisation of software costs		**(84)**	(63)
Amortisation of identifiable intangibles		**(561)**	(762)
Share of associate loss		**(2)**	-
Statutory EBIT		**5,053**	5,427
Net interest		**(1,176)**	(1,266)
Profit before Income Tax		**3,877**	**4,161**
Tax expense		**(1,695)**	(1,352)
Profit for the year		**2,182**	**2,809**
Underlying NPATA		**4,031**	**3,659**

NPATA is defined as net profit after tax excluding amortisation of specifically identifiable intangibles

* Refer Note 13

	31 December 2017 $'000	31 December 2016 $'000
EPS (Basic) (Cents)		
Statutory NPAT	**4.9**	6.6
Underlying NPATA	**9.1**	8.6

The comparative data for 31 December 2016 has been restated due to a change in accounting policy relating to in-bound freight costs included in the cost of inventory and property, plant and equipment which has reduced EBITDA by 0.2 *million from that reported in the half-year ended 31 December 2016.*

Directors' Report
31 December 2017

Review of operations

Events occurring after the reporting date

Prostheses List Price Reductions
In October 2017, the Minister for Health and Sport announced a four-year strategic agreement in which a number of reform measures to the Prothesis List (PL) including price reductions would be implemented. The agreement is due to take effect in 2018 and 2020 with varying levels of percentage price reductions across the thirteen categories of the PL, based upon established price variances between private and public pricing. The price reduction in 2018 will be implemented in two tranches, 80% with the effect from 1 February 2018 and 20% with the effect from 1 August 2018. The price reduction in 2020 will be implemented 100% with effect from 1 February 2020.

The impact of these PL changes to LifeHealthcare, on the last twelve month weighted average revenue basis and noting LifeHealthcare's overall PL revenue exposure of 40% will be a revenue reduction of 1.3% from February 2018, 0.3% from August 2018 and 1.3% from February 2020.

The impact of the PL changes to LifeHealthcare in FY18 are approximately $0.8 million. The impact of the price reduction is being managed through a combination of mitigations including supplier terms, variable cost management and the acquisition of the agency agreement with Australian Biotechnologies Pty Limited.

Passing of Donna Staunton, Non-Executive Director
It is with great sadness that on 5 January 2018, LifeHealthcare's non-executive Director, Donna Staunton passed away after a battle with illness. Donna served on our Board since LifeHealthcare's listing on the ASX in December 2013 and undertook the Chairpersons role of the Remuneration and Nominations committee from its formation in 2016. During her time on the Board, Donna provided invaluable insight and support to our management team, championing the development of LifeHealthcare's organisational culture and diversity across the leadership team. On behalf of our Chairman Bill Best, the Board and all employees at LifeHealthcare, we extend our condolences to Donna's family.

With Donna's passing, Heith Mackay-Cruise has taken on the responsibility of Chairman of the Remuneration and Nominations committee and John Hickey has also joined the committee effective 25 January 2018.

Scheme Implementation Deed with Pacific Equity Partners to Acquire 100% of the Share Capital of the Group
On 5 February 2018 the Group entered into a binding Scheme Implementation Deed with Pacific Health Supplies BidCo Pty Limited, an entity wholly owned by funds advised by Pacific Equity Partners (PEP) under which it is proposed that PEP will acquire 100% of the shares in LifeHealthcare Group Limited by way of a Scheme of Arrangement for $3.75 per share in cash. The implementation of the Scheme is subject to approval from the Group's shareholders, the Foreign Investment Review Board and the Court.

Under the terms of the Scheme of Arrangement the Board of Directors are permitted to issue an interim dividend and/or special dividend whereby the consideration of $3.75 per share would be reduced by the cash amount per share of any such dividend.

6th Facility Amendment Deed with ANZ Banking Group
On 5 February 2018, associated with the Scheme of Arrangement with Pacific Equity Partners to acquire 100% of the share capital in the Group, the Group entered into a 6th Facility Amendment Deed with ANZ Banking Group Limited for up to an additional $4 million of funding in order to fund a special dividend subject to the Scheme of Arrangement obtaining shareholder and Court approval.

Dividends
On 20 February 2018 the company approved an interim fully franked dividend of 7.5 cents per ordinary share. The dividend reinvestment plan has been terminated.

Except for the above, no other matters or circumstances have arisen since the end of the financial half-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.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half-year ended 31 December 2017 has been received and can be found on page 8 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.

This report is signed in accordance with a resolution of the Board of Directors.

Matthew Muscio
Director

Dated 20 February 2018

Auditor's Independence Declaration

As lead auditor for the review of LifeHealthcare Group Limited for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

S.T.M

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
20 February 2018

Condensed Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2017

	Note	31 December 2017 $'000	31 December 2016 $'000 (Restated*)
Revenue		**67,411**	61,697
Cost of goods sold		**(30,186)**	(29,055)
Employee benefits expense		**(17,390)**	(15,435)
Depreciation and amortisation expense		**(2,886)**	(3,069)
Director fees		**(178)**	(187)
Distribution expenses		**(1,694)**	(1,315)
Travel expenses		**(1,495)**	(1,412)
Marketing and advertising expenses		**(1,091)**	(1,233)
Motor vehicle expenses		**(25)**	(134)
Occupancy expenses		**(917)**	(950)
Telecommunications expense		**(140)**	(175)
Transaction related expenses, net	4	**(1,895)**	(453)
Other expenses		**(4,459)**	(2,842)
Finance costs		**(1,176)**	(1,266)
Share of loss from interest in joint venture		**(2)**	(10)
Profit before income taxes		**3,877**	4,161
Income tax expense	4	**(1,695)**	(1,352)
Profit for the half-year		**2,182**	2,809
Other comprehensive income, net of income tax			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		**(53)**	35
Changes in the fair value of cash flow hedges		**302**	970
Income tax relating to components of other comprehensive income		**(91)**	(291)
Other comprehensive income for the year, net of tax		**158**	**714**
Total comprehensive income for the year		**2,340**	**3,523**
Profit attributable to:			
Members of the parent entity		**2,182**	2,809
Total comprehensive income attributable to:			
Members of the parent entity		**2,340**	3,523

* Refer Note 13

Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share (cents)		**4.9**	6.6
Diluted earnings per share (cents)		**4.9**	6.6

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

Condensed Consolidated Balance Sheet

As at 31 December 2017

	Note	31 December 2017 $'000	30 June 2017 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**5,498**	5,503
Trade and other receivables		**21,668**	24,190
Inventories		**42,994**	37,612
Derivative financial assets		**83**	-
TOTAL CURRENT ASSETS		**70,243**	67,305
NON-CURRENT ASSETS			
Property, plant and equipment	7	**10,769**	10,404
Deferred tax assets		**2,785**	4,364
Intangible assets	8	**39,218**	27,270
TOTAL NON-CURRENT ASSETS		**52,772**	42,038
TOTAL ASSETS		**123,015**	109,343
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**23,640**	22,559
Borrowings	9	**-**	2,854
Current tax liabilities		**1,318**	2,086
Provisions		**1,744**	1,720
Derivative financial liabilities		**652**	786
Other current liabilities		**82**	137
TOTAL CURRENT LIABILITIES		**27,436**	30,142
NON-CURRENT LIABILITIES			
Borrowings	9	**43,881**	30,959
Provisions		**687**	625
Derivative financial liabilities		**401**	336
TOTAL NON-CURRENT LIABILITIES		**44,969**	31,920
LIABILITIES		**72,405**	62,062
NET ASSETS		**50,610**	47,281
EQUITY			
Contributed equity		**31,211**	27,185
Reserves		**1,361**	895
Retained earnings		**18,038**	19,201
TOTAL EQUITY		**50,610**	47,281

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

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2017

	Ordinary Shares $'000	Retained Earnings $'000	Foreign Currency Translation Reserve $'000	Share- Based Payments Reserve $'000	Hedge Reserve $'000	Total $'000
Balance at 1 July 2017	27,185	19,201	254	1,426	(785)	47,281
Profit for the half-year	-	2,182	-	-	-	2,182
Total other comprehensive income for the half-year	-	-	(53)	-	210	157
Transaction with owners in their capacity as owners						
Dividends provided for or paid (Note 10)	-	(3,345)	-	-	-	(3,345)
Share based payment transactions	-	-	-	309	-	309
Shares issued during the year (Note 10)	4,026	-	-	-	-	4,026
Balance at 31 December 2017	31,211	18,038	201	1,735	(575)	50,610

	Ordinary Shares $'000	Retained Earnings $'000 (restated*)	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 half-year	-	2,809	-	-	-	2,809
Total other comprehensive income for the half-year	-	-	35	-	970	1,005
Transaction with owners in their capacity as owners						
Dividends provided for or paid (Note 10)	-	(3,190)	-	-	-	(3,190)
Share based payment transactions	-	-	-	257	-	257
Balance at 31 December 2016	26,276	17,535	265	1,256	(261)	45,071

* Refer Note 13

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

Condensed Consolidated Statement of Cash Flows

For the half-year ended 31 December 2017

	Note	31 December 2017 $'000	31 December 2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		80,009	68,623
Payments to suppliers and employees		(71,629)	(61,289)
		8,380	7,334
Interest received		-	-
Interest paid		(1,176)	(1,266)
Income taxes paid		(2,835)	(622)
Net cash inflow from operating activities		4,369	5,446
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for acquisition of subsidiary, net of cash acquired	5	(5,858)	-
Purchase of property, plant and equipment and intangibles		(6,004)	(3,306)
Payments for investments		-	(13)
Net cash outflow from investing activities		(11,862)	(3,319)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends Paid		(3,345)	(3,190)
Proceeds from borrowings, net of costs		10,000	-
Repayment of borrowings		(696)	(1,500)
Issues of new shares		1,529	-
Net cash inflow/(outflow) from financing activities		7,488	(4,690)
Net decrease in cash and cash equivalents held		(5)	(2,563)
Cash and cash equivalents at beginning of the half-year		5,503	4,051
Cash and cash equivalents at end of the half-year		5,498	1,488

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

Notes to the Condensed Consolidated Financial Statements

31 December 2017

1 Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ending 31 December 2017 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by LifeHealthcare Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

(a) New, revised or amending Accounting Standards and Interpretations adopted and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments or new disclosures in this financial report as a result of adopting these standards.

(b) Impact of standards issued but not yet applied by the entity

(i) AASB 9 Financial instruments

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model. The standard is not applicable until 1 January 2018.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

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.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.

The Group will make more detailed assessments of the impact over the next six months.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

1 Basis of Preparation (continued)

(b) Impact of standards issued but not yet applied by the entity (continued)

(ii) AASB 15 Revenue from contracts with customers

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. 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.

Management has assessed the impact of the new rules and has identified that extended warranties are likely to be affected. Extended warranties will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue.

The Group will make more detailed assessments of the impact over the next six months.

(iii) AASB 16 Leases

AASB 16 Leases will primarily impact the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. The Group will make more detailed assessments of the impact over the next six months.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Condensed Consolidated Financial Statements
31 December 2017

2 Critical Accounting Estimates and Judgments

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods. There have been no significant changes since 30 June 2017 in the bases upon which estimates have been determined.

3 Significant changes in the current reporting period

The financial position and performance of the Group has not been impacted by any material event or transaction during the six months to 31 December 2017, other than the acquisition of Oceania Orthopaedics Pty Limited disclosed in Note 5 and acquisition of the agency agreement with Australian Biotechnologies Pty Limited disclosed in Note 8.

4 Profit and loss information

(a) Transaction related expenses, net

In the period ended 31 December 2017 the Group has incurred the following transaction costs related to acquisitions of Oceania Orthopaedics Pty Limited (Note 5) and acquisition of the agency agreement with Australian Biotechnologies Pty Limited (Note 8):

	31 December 2017 $'000	31 December 2016 $'000
Acquisition earn out	-	453
Supplier exit costs (Note 5)	1,425	-
Professional services	303	-
Other	167	-
Total transaction related expenses	1,895	453

(b) Income tax expense

Income tax for the half-year is recognised based on management's estimate on the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the half-year to 31 December 2017 is 35% (2016: 32%).

Total tax expense includes prior year under provision of income tax of $0.3 million.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

5 Business Combination

Summary of Oceania Orthopaedics Pty Limited acquisition

On the 31st of July 2017, a subsidiary company acquired a 100% interest in Oceania Orthopaedics Pty Limited which resulted in LifeHealthcare Group Limited obtaining control of Oceania Orthopaedics Pty Limited. This acquisition is expected to increase the Group's share of this market and reduce costs through economies of scale.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	Note	Fair value $'000
Purchase consideration		
- Cash consideration		7,250
- Script consideration	10	2,498
Total purchase consideration		**9,748**
Assets or liabilities acquired:		
Cash and cash equivalents		1,392
Trade and other receivables		1,114
Inventories		2,474
Property, plant and equipment	7	149
Intangible assets	8	5,800
Other assets		6
Trade and other payables		(1,793)
Borrowings		(696)
Provisions		(80)
Current tax liabilities		(148)
Deferred tax liabilities		(1,716)
Net identifiable assets acquired		**6,502**
Add: goodwill		3,246
Net assets acquired		**9,748**

The goodwill is attributable to synergies expected to be achieved from integrating the Company into the Group's existing businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.

In addition, the Group incurred additional costs ($1.4 million) associated with the exit of the previous orthopaedic supplier. The total costs were consistent with initial transaction cost expectations.

Notes to the Condensed Consolidated Financial Statements
31 December 2017

5 Business Combination (continued)

Revenue of Oceania Orthopaedics Pty Limited included in the consolidated revenue of the Group for the period from the acquisition date on 31 July 2017 to 31 December 2017 amounted to $3,258,831 with a profit after tax of $386,011.

Had the results of Oceania Orthopaedics Pty Limited been consolidated from 1 July 2017, revenue for the Group for the half year ended 31 December 2017 would have been $68,024,976 and consolidated profit after tax would have been $2,480,795 . In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2017.

There were no acquisitions in the half year ended 31 December 2016.

(a) Acquisition related costs

Included within Transaction related expenses in the consolidated statement of comprehensive income for the half year ended 31 December 2017 are acquisition related costs totaling $1,825,105 in relation to the acquisition of Oceania Orthopaedics. The costs include legal and due diligence fees together with costs associated with the exit of the previous orthopaedics supplier of $1,424,998 .

6 Operating Segments

As disclosed in the 30 June 2017 annual report, the Group operates in one operating segment being the sale of Medical devices in Australia and New Zealand.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

7 Property, plant and equipment

	31 December 2017 $'000	30 June 2017 $'000
Plant and equipment		
At cost	**27,546**	25,123
Accumulated depreciation	**(17,542)**	(15,563)
Total plant and equipment	**10,004**	9,560
Furniture, fixtures and fittings		
At cost	**247**	225
Accumulated depreciation	**(177)**	(165)
Total furniture, fixtures and fittings	**70**	60
Leasehold Improvements		
At cost	**2,144**	2,083
Accumulated depreciation	**(1,449)**	(1,299)
Total leasehold improvements	**695**	784
Total property, plant and equipment	**10,769**	10,404

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 half-year:

	Plant and Equipment $'000	Furniture, Fixtures and Fittings $'000	Leasehold Improvements $'000	Total $'000
Half year ended 31 December 2017				
Balance at the beginning of half-year	9,560	60	784	**10,404**
Acquisition of subsidiary (Note 5)	149	-	-	**149**
Additions	2,266	20	51	**2,337**
Disposals - written down value	(22)	-	-	**(22)**
Depreciation expense	(1,949)	(10)	(140)	**(2,099)**
Balance at 31 December 2017	**10,004**	**70**	**695**	**10,769**

Notes to the Condensed Consolidated Financial Statements

31 December 2017

8 Intangible Assets

	31 December 2017 $'000	30 June 2017 $'000
Goodwill		
Cost	67,811	64,565
Accumulated impairment	(38,307)	(38,307)
Net carrying value	29,504	26,258
Computer software		
Cost	4,122	3,824
Accumulated amortisation	(3,565)	(3,480)
Net carrying value	557	344
Supply contracts		
Cost	12,460	3,411
Accumulated amortisation	(3,303)	(2,743)
Net carrying value	9,157	668
Total intangibles	39,218	27,270

Movements in carrying amounts of intangible assets

	Computer software $'000	Supply contracts $'000	Goodwill $'000	Total $'000
Half-year ended 31 December 2017				
Balance at the beginning of half-year	344	668	26,258	27,270
Acquisition of subsidiary (Note 5)	-	5,800	3,246	9,046
Additions (a)	297	3,250	-	3,547
Amortisation	(84)	(561)	-	(645)
Balance at 31 December 2017	557	9,157	29,504	39,218

(a) Acquisition of agency agreement with Australian Biotechnologies Pty Limited

On 1 November 2017 LifeHealthcare acquired the right to promote the Australian Biotechnologies (Aus Bio) spinal allograft biologics range from Point Blank Medical for $3,250,000 and entered into a non-stocking commission only ten-year distribution agreement with Aus Bio.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

9 Borrowings

	31 December 2017 $'000	30 June 2017 $'000
CURRENT		
Secured liabilities:		
Bank loans	-	2,854

	31 December 2017 $'000	30 June 2017 $'000
NON-CURRENT		
Secured liabilities:		
Bank loans	43,881	30,959

During the half-year there were no defaults or breaches on any of the Group's loans.

On 31 July 2017, LifeHealthcare refinanced all bank debt facilities with its long-term banking partner, ANZ Banking Group Limited. The debt facilities have been refinanced to provide additional funding for acquisitions and extended for a further 3 years maturing in 2020. The terms and conditions of the new facilities at 31 December 2017 are:

- The Multi Option Facility is renewable annually. Components of the facility comprise bank guarantees, corporate credit cards, a cash advance facility and a bank overdraft. The facility has a limit of $6,000,000 (30 June 2017: $8,000,000). At 31 December 2017, the facility was drawn to $671,409 for bank guarantees and corporate credit cards (30 June 2017: $687,652 for bank guarantees and corporate credit cards).

- A loan in the form of a cash advance facility was drawn down and repayable on 27 July 2020. This facility has a limit of $34,000,000 (30 June 2017: $34,000,000) which was drawn down to $34,000,000 at 31 December 2017 (30 June 2017: $34,000,000).

- A new loan in the form of an acquisition facility for $10,000,000 (30 June 2017: $0) was provided at the time of the refinance, with an expiration on 27 July 2020. The facility was utilised for the purchase of Oceania Orthopaedics Pty Limited and the acquisition of agency agreement with Australian Biotechnologies Pty Limited.

Notes to the Condensed Consolidated Financial Statements
31 December 2017

10 Equity

	31 December 2017 $'000	31 December 2016 $'000
(a) Ordinary shares		
Dividends provided for or paid during the half-year	3,345	3,190

	31 December 2017 $'000	31 December 2016 $'000
(b) Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim fully franked dividend of 7.5 cents per fully paid ordinary share (2016: 6.25 cents unfranked). The aggregate amount of the proposed fully franked dividend expected to be paid on or about 21 March 2018 out of retained earnings at 31 December 2017, but not recognised as a liability at the end of the half-year is:	3,370	2,658

(c) Shares issued during the year

	31 December 2017 No. of shares '000	31 December 2016 No. of shares '000
Dividend reinvestment plan	337	-
Oceania Orthopaedics acquisition	1,116	-
Exercise of options & performance rights	477	-
	1,930	-

11 Fair Value Measurement

The Group measures derivative assets and liabilities at fair value on a recurring basis.

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.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

11 Fair Value Measurement

Fair Value hierarchy

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

	Level 1 $	Level 2 $	Level 3 $	Total $
31 December 2017				
Recurring fair value measurements				
Derivative financial assets	-	83	-	83
Derivative financial liabilities (current)	-	(652)	-	(652)
Derivative financial liabilities (non-current)	-	(401)	-	(401)
	-	(970)	-	(970)

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

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.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

12 Contingencies

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

Guarantees

The Group has bank guarantees at 31 December 2017 for the performance of certain office lease commitments to a maximum of $510,153 (30 June 2017: $498,456).

13 Change in Accounting Policy

In the year ended 30 June 2017 the Group changed its accounting policy for determining the 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 31 December 2016 was adjusted retrospectively:

	31 December 2016			30 June 2016		
	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	(28,861)	(194)	(29,055)			
Depreciation and amortisation expense	(3,031)	(38)	(3,069)			
Income tax expense	(1,422)	70	(1,352)			
Net profit after tax	2,971	(162)	2,809			
Consolidated Balance Sheet						
Retained Earnings	16,958	577	17,535	17,177	739	17,916

14 Events Occurring After the Reporting Date

Prosthesis List Price Reductions

In October 2017, the Minister for Health and Sport announced a four-year strategic agreement in which a number of reform measures to the Prothesis List (PL) including price reductions would be implemented. The agreement is due to take effect in 2018 and 2020 with varying levels of percentage price reductions across the thirteen categories of the PL, based upon established price variances between private and public pricing. The price reduction in 2018 will be implemented in two tranches, 80% with the effect from 1 February 2018 and 20% with the effect from 1 August 2018. The price reduction in 2020 will be implemented 100% with effect from 1 February 2020.

The impact of the price reduction is being managed through a combination of mitigations including supplier terms, variable cost management and the acquisition of the agency agreement with Australian Biotechnologies Pty Limited.

Notes to the Condensed Consolidated Financial Statements

31 December 2017

14 Events Occurring After the Reporting Date (continued)

Passing of Donna Staunton, Non-Executive Director

It is with great sadness that on 5 January 2018, LifeHealthcare's non-executive Director, Donna Staunton passed away after a battle with illness. Donna has served on the Board since LifeHealthcare's listing on the ASX in December 2013 and undertook the Chairpersons role of the Remuneration and Nominations committee from its formation in 2016. During her time on the Board, Donna provided invaluable insight and support to our management team, championing the development of LifeHealthcare's organisational culture and diversity across the leadership team. On behalf of our Chairman Bill Best, the Board and all employees at LifeHealthcare, we extend our condolences to Donna's family.

With Donna's passing, Heith Mackay-Cruise has taken on the responsibility of Chairman of the Remuneration and Nominations committee and John Hickey has also joined the committee effective 25 January 2018.

Scheme Implementation Deed with Pacific Equity Partners to Acquire 100% of the Share Capital of the Group

On 5 February 2018 the Group entered into a binding Scheme Implementation Deed with Pacific Health Supplies BidCo Pty Limited, an entity wholly owned by funds advised by Pacific Equity Partners (PEP) under which it is proposed that PEP will acquire 100% of the shares in LifeHealthcare Group Limited by way of a Scheme of Arrangement for $3.75 per share in cash. The implementation of the Scheme is subject to approval from the Group's shareholders, the Foreign Investment Review Board and the Court.

Under the terms of the Scheme of Arrangement the Board of Directors are permitted to issue an interim dividend and/or special dividend whereby the consideration of $3.75 per share would be reduced by the cash amount per share of any such dividend.

6th Facility Amendment Deed with ANZ Banking Group

On 5 February 2018, associated with the Scheme of Arrangement with Pacific Equity Partners to acquire 100% of the share capital in the Group, the Group entered into a 6th Facility Amendment Deed with ANZ Banking Group Limited for up to an additional $4 million of funding in order to fund a special dividend subject to the Scheme of Arrangement obtaining shareholder and Court approval.

Dividends

On 20 February 2018 the company approved an interim fully franked dividend of 7.5 cents per ordinary share.

Except for the above, no other matters or circumstances have arisen since the end of the financial half-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' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 9 to 24 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 31 December 2017 and of its performance for the half-year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that LifeHealthcare Group Limited will be able to pay its debts as and when they become due and payable.

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

M. Muscio.

Matthew Muscio
Director

Sydney
Dated 20 February 2018

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Independent auditor's review report to the members of LifeHealthcare Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of LifeHealthcare Group Limited (the Company), which comprises the condensed consolidated balance sheet as at 31 December 2017, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for LifeHealthcare Group. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of LifeHealthcare Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

S.T.Maher

Shannon Maher
Partner

Sydney
20 February 2018