



CLINICAL LABORATORIES PTY. LTD.

ABN 62 006 823 089

SPECIAL PURPOSE  
CONSOLIDATED  
ANNUAL REPORT

For the year ended 30 June 2018

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## CLINICAL LABORATORIES PTY. LTD.

# DIRECTORS' REPORT

### Overview

The Directors present their report for the financial year ended 30 June 2018 accompanied by the financial report of Clinical Laboratories Pty. Ltd. (ABN: 62 006 823 089, 'the Company') and the entities it controlled during the year ('the Group').

In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Directors

The names of the Directors in office at any time during or since the end of the year are:

Mr. M. Alscher

Ms. M. McGrath

Mr. M. Lukin

Mr. J. Mahemoff

Mr. M. Stanford

Mr. C. Yoo (resigned 4 February 2018)

Mr. A. Soetanto (appointed 4 February 2018 and resigned 30 April 2018)

Mr. N. Thomson (appointed 30 April 2018)

Mr. S. Goldsworthy (appointed 1 March 2018 and resigned 1 August 2018)

Mr. S. Kelly (appointed 1 August 2018)

The above named Directors held office from the start of the year to the date of this report unless otherwise indicated.

### Principal activities

The principal activity of the Group during the year ended 30 June 2018 was the provision of pathology diagnostic services.

### Review of operations

The consolidated loss for the year amounted to \$9,012,000 (2017: \$24,031,000 loss).

During the financial year, the Group acquired ACL Specialist Investments Pty Ltd. Refer to the state of affairs section below for an overview of developments arising during the financial year.

### Dividends

No dividends have been declared during or since the end of the year (2017: Nil).

### State of Affairs

On 15 December 2017, the Company acquired 100% of the shares in ACL Specialist Investments Pty Ltd ("ACLSI").

Refer to the subsequent events section below for an overview of developments arising subsequent to 30 June 2018.

### Subsequent events

On 1 August 2018, the Directors resolved to undertake a capital reduction in accordance with section 256C of the Corporations Act, reducing the Company's share capital by \$129,000,000.

There were no other significant changes in the Group's state of affairs that occurred subsequent to the financial year and up to the date of this report, other than those referred to elsewhere in this report.

### Future developments

In the opinion of the Directors, the Group is expected to continue to provide pathology diagnostic services within Australia on a commercial basis.

### Environmental regulations

The Group's operations are not subject to any significant environmental regulations under a law of the Commonwealth or of a State or Territory.

CLINICAL LABORATORIES PTY. LTD.

**DIRECTORS' REPORT**

**Indemnification and insurance of officers and auditors**

During the year, the Group paid a premium in respect of a contract insuring each of the Directors of the Group, and the Company Secretary against liabilities that are permitted to be covered by the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium are not to be disclosed.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group against liability incurred as such an officer or auditor.

**Proceedings on behalf of Group**

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

**Rounding off of amounts**

The Group is a group of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

**Non-audit services**

Auditor's remuneration is disclosed in note 24.

**Auditor independence**

The auditor's independence declaration is included on page 3 of the report.

Signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Board of Directors,



**M. McGrath**  
Director

Melbourne, 31 October 2018

**AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF  
CLINICAL LABORATORIES PTY. LTD.**

In relation to the independent audit for the financial year ended 30 June 2018, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Clinical Laboratories Pty Ltd and the entities it controlled during the period.

  
B POWERS  
Partner

Date: 31 October 2018

  
PITCHER PARTNERS  
Melbourne

## CLINICAL LABORATORIES PTY. LTD.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

|  | Note | 2018<br>\$'000 | 2017<br>\$'000  |
|--|------|----------------|-----------------|
| Revenue  | 4    | 379,245        | 339,768         |
| Employee benefits expense  | 5    | (188,568)      | (178,480)       |
| Consumables expense  |      | (65,960)       | (57,679)        |
| Occupancy costs  |      | (78,411)       | (73,021)        |
| Other expenses   | 5    | (39,031)       | (42,312)        |
| <b>Profit / (loss) before depreciation, finance costs and income tax</b> |      | <b>7,275</b>   | <b>(11,724)</b> |
| Depreciation   | 5    | (11,318)       | (12,510)        |
| <b>Loss before finance costs and income tax</b>                          |      | <b>(4,043)</b> | <b>(24,234)</b> |
| Net finance costs  | 6    | (3,598)        | (3,378)         |
| <b>Loss before income tax</b>  |      | <b>(7,641)</b> | <b>(27,612)</b> |
| Income tax benefit / (income tax expense)                                |      | (1,371)        | 3,581           |
| <b>Loss for the year</b>   |      | <b>(9,012)</b> | <b>(24,031)</b> |
| <b>Other comprehensive income</b>  |      |                |                 |
| <b>Items that may be reclassified subsequently to profit and loss</b>    |      |                |                 |
| Exchange differences on translation of foreign operations                |      | 40             | (28)            |
| <b>Other comprehensive income for the year, net of tax</b>               |      | <b>40</b>      | <b>(28)</b>     |
| <b>Total comprehensive loss for the year</b>                             |      | <b>(8,972)</b> | <b>(24,059)</b> |

The accompanying notes numbered 1 to 26 form part of this financial report.

CLINICAL LABORATORIES PTY. LTD.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
AS AT 30 JUNE 2018

|                                      | Note   | 2018<br>\$'000 | 2017<br>\$'000 |
|--------------------------------------|--------|----------------|----------------|
| <b>CURRENT ASSETS</b>                |        |                |                |
| Cash and cash equivalents            | 20 (a) | 6,867          | 7,036          |
| Trade and other receivables          | 7      | 34,105         | 30,640         |
| Inventories                          | 8      | 7,122          | 7,695          |
| Other financial assets               | 9      | 13,368         | 12,815         |
| Current tax assets                   |        | -              | 161            |
| <b>TOTAL CURRENT ASSETS</b>          |        | <b>61,462</b>  | <b>58,347</b>  |
| <b>NON-CURRENT ASSETS</b>            |        |                |                |
| Property, plant and equipment        | 10     | 33,666         | 37,879         |
| Goodwill                             | 11     | 13,002         | 13,002         |
| Other financial assets               | 9      | 510            | -              |
| Deferred tax assets                  | 12     | 10,418         | 11,665         |
| <b>TOTAL NON-CURRENT ASSETS</b>      |        | <b>57,596</b>  | <b>62,546</b>  |
| <b>TOTAL ASSETS</b>                  |        | <b>119,058</b> | <b>120,893</b> |
| <b>CURRENT LIABILITIES</b>           |        |                |                |
| Trade and other payables             | 13     | 22,970         | 21,015         |
| Borrowings                           | 14     | 1,307          | 203            |
| Provisions                           | 15     | 33,145         | 32,784         |
| Deferred revenue                     |        | -              | 239            |
| Current tax liabilities              |        | 21             | -              |
| <b>TOTAL CURRENT LIABILITIES</b>     |        | <b>57,443</b>  | <b>54,241</b>  |
| <b>NON-CURRENT LIABILITIES</b>       |        |                |                |
| Borrowings                           | 14     | 52,213         | 48,264         |
| Provisions                           | 15     | 3,941          | 4,263          |
| Deferred tax liabilities             | 12     | 3              | 3              |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |        | <b>56,157</b>  | <b>52,530</b>  |
| <b>TOTAL LIABILITIES</b>             |        | <b>113,600</b> | <b>106,771</b> |
| <b>NET ASSETS</b>                    |        | <b>5,458</b>   | <b>14,122</b>  |
| <b>EQUITY</b>                        |        |                |                |
| Issued capital                       | 16 (a) | 109,515        | 109,515        |
| Other contributed equity             | 16 (b) | 128,989        | 128,989        |
| Reserves                             |        | 790            | 442            |
| Accumulated losses                   |        | (233,836)      | (224,824)      |
| <b>TOTAL EQUITY</b>                  |        | <b>5,458</b>   | <b>14,122</b>  |

The accompanying notes numbered 1 to 26 form part of this financial report.

## CLINICAL LABORATORIES PTY. LTD.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2018

|   | Note   | 2018<br>\$'000 | 2017<br>\$'000  |
|---|--------|----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |        |                |                 |
| Receipts from customers                                       |        | 378,718        | 342,588         |
| Payment to suppliers and employees                            |        | (374,050)      | (337,613)       |
| <b>Cash provided by operations</b>                            |        | <b>4,668</b>   | <b>4,975</b>    |
| Interest received   |        | 47             | 53              |
| Interest and costs of finance paid                            |        | (92)           | (319)           |
| Income tax (paid) / received                                  |        | 70             | (106)           |
| <b>Net cash provided by operating activities</b>              | 20 (d) | <b>4,693</b>   | <b>4,603</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |        |                |                 |
| Proceeds from sale of property, plant and equipment           |        | 290            | 90              |
| Purchase of property, plant and equipment                     |        | (8,635)        | (7,458)         |
| Acquisition of business                                       | 21     | -              | (4,545)         |
| Purchase of shares  |        | (510)          | -               |
| <b>Net cash used in investing activities</b>                  |        | <b>(8,855)</b> | <b>(11,913)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |        |                |                 |
| Finance leasing payments                                      |        | (203)          | (375)           |
| Proceeds from new shares issued                               |        | -              | 19,000          |
| Proceeds from borrowings                                      |        | 1,250          | -               |
| Intercompany borrowings                                       |        | 2,927          | (5,259)         |
| <b>Net cash provided by financing activities</b>              |        | <b>3,974</b>   | <b>13,366</b>   |
| <b>Net increase / (decrease) in cash and cash equivalents</b> |        | <b>(188)</b>   | <b>6,056</b>    |
| Foreign exchange differences on cash holdings                 |        | 19             | (5)             |
| Cash and cash equivalents at the beginning of the year        |        | 7,036          | 985             |
| <b>Cash and cash equivalents at the end of the year</b>       | 20 (a) | <b>6,867</b>   | <b>7,036</b>    |

The accompanying notes numbered 1 to 26 form part of this financial report.



## CLINICAL LABORATORIES PTY. LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE PERIOD ENDED 30 JUNE 2018

|   | Issued<br>capital<br>\$'000 | Other<br>contributed<br>equity<br>\$'000 | Share<br>based<br>payment<br>reserve<br>\$'000 | Other<br>Reserves<br>\$'000 | Accumulated<br>losses<br>\$'000 | Total equity<br>\$'000 |
|---|-----------------------------|--|--|-----------------------------|---------------------------------|------------------------|
| <b>2017</b>   |                             |  |  |                             |                                 |                        |
| <b>Opening balance at 1 July 2016</b>                                       | 97,321                      | 128,989                                  | 129  | 48                          | (200,793)                       | 25,694                 |
| Loss for the year   | -                           | -  | -  | -                           | (24,031)                        | (24,031)               |
| Exchange differences on translation of<br>foreign operations <sup>(i)</sup> | -                           | -  | -  | (28)                        | -                               | (28)                   |
| Other comprehensive income for the<br>year net of tax                       | -                           | -  | -  | (28)                        | -                               | (28)                   |
| <b>Total comprehensive income for the<br/>year</b>                          | -                           | -  | -  | (28)                        | (24,031)                        | (24,059)               |
| <b>Transactions with owners in their<br/>capacity as owners</b>             |                             |  |  |                             |                                 |                        |
| New shares issued <sup>(ii)</sup>   | 31,740                      | -  | -  | -                           | -                               | 31,740                 |
| Return of capital <sup>(iv)</sup>   | (19,546)                    | -  | -  | -                           | -                               | (19,546)               |
| Management share scheme <sup>(iii)</sup>                                    | -                           | -  | 293  | -                           | -                               | 293                    |
| <b>Closing balance at 30 June 2017</b>                                      | <b>109,515</b>              | <b>128,989</b>                           | <b>422</b>                                     | <b>20</b>                   | <b>(224,824)</b>                | <b>14,122</b>          |
| <b>2018</b>   | <b>\$'000</b>               | <b>\$'000</b>                            | <b>\$'000</b>                                  | <b>\$'000</b>               | <b>\$'000</b>                   | <b>\$'000</b>          |
| <b>Opening balance at 1 July 2017</b>                                       | 109,515                     | 128,989                                  | 422  | 20                          | (224,824)                       | 14,122                 |
| Loss for the year   | -                           | -  | -  | -                           | (9,012)                         | (9,012)                |
| Exchange differences on translation of<br>foreign operations <sup>(i)</sup> | -                           | -  | -  | 40                          | -                               | 40                     |
| Other comprehensive income for the<br>year net of tax                       | -                           | -  | -  | 40                          | -                               | 40                     |
| <b>Total comprehensive income for the<br/>year</b>                          | -                           | -  | -  | 40                          | (9,012)                         | (8,972)                |
| New shares issued <sup>(ii)</sup>   | -                           | -  | -  | -                           | -                               | -                      |
| Return of capital <sup>(iv)</sup>   | -                           | -  | -  | -                           | -                               | -                      |
| Management share scheme <sup>(iii)</sup>                                    | -                           | -  | 308  | -                           | -                               | 308                    |
| <b>Closing balance at 30 June 2018</b>                                      | <b>109,515</b>              | <b>128,989</b>                           | <b>730</b>                                     | <b>60</b>                   | <b>(233,836)</b>                | <b>5,458</b>           |

(i) Foreign currency translation reserve associated with the translation of Malvern Pathology Laboratories Sdn Bhd into AUD presentation currency.

(ii) New shares issued

(iii) On 1 December 2017, 414,079 shares were issued to management of the Company under the Company's Management Share Plan. Subsequently, on 29 March 2018, an additional 500,000 shares were issued to management under the same plan. For accounting purposes these shares are treated as options and the expense associated with the current year is reflected in a share based payment reserve.

(iv) On 6 October 2016, the Directors resolved to reduce the share capital of the Company by \$19.5 million in accordance with section 256C of the Corporations Act. The consideration for the return of capital was left outstanding as loans owed by the Company to its shareholders.

The accompanying notes numbered 1 to 26 form part of this financial report.

CLINICAL LABORATORIES PTY. LTD.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 1: GENERAL INFORMATION**

Clinical Laboratories Pty. Ltd. is a proprietary company, incorporated and domiciled in Australia.

The registered office and principal place of business is:  
1868 Dandenong Road  
Clayton VIC 3168

The principal activity of the Group during the year ended 30 June 2018 was the provision of pathology diagnostic services.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Accounting Standards and Interpretations in Australia, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' and AASB 1054 'Australian Additional Disclosures'.

The financial statements comprise the consolidated financial statements of the Company and the entities it controlled during the year. For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The financial statements were authorised for issue by the Directors on 31 October 2018.

**Basis of preparation**

The Company is not a reporting entity because in the opinion of the Directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the Directors' reporting requirements under the Corporations Act 2001.

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Clinical Laboratories Pty. Ltd. and all of its controlled entities (the 'Group' or "Consolidated Entity"). The Group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

When control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

**Comparative Figures**

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Foreign currency translation and balances

##### *Functional and presentation currency*

The financial statements for each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional currency.

##### *Transactions and balances*

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. All resulting exchange arising on settlement or restatement are recognised as revenue or expenses for the financial year.

##### *Foreign subsidiaries*

Subsidiaries that have a functional currency different to the presentation currency of the consolidated Group are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income

#### Going concern

As at 30 June 2018 the Group generated a loss for the period of \$9,012,000 (2017: \$24,031,000) and generated cash inflows from operating activities of \$4,693,000 (2017: inflows of \$4,603,000).

To continue as a going concern the Group requires continued support from its major shareholder, Crescent Capital Partners.

The Directors consider the going concern basis of preparation to be appropriate as the Group has received a letter of support from its major shareholder, Crescent Capital Partners, who have agreed to provide continued financial support to the Group so as to enable it to pay its debts as and when they fall due for the period of 12 months from the date of this report or the date of signing the financial report for the year ending 30 June 2019, whichever is the latter. The Directors have considered the ability of Crescent Capital Partners to provide financial support and have concluded that they are in a position to provide such support if and when required.

The Directors have concluded that the Group will be able to pay its debts as and when they fall due as a result of the ongoing financial support provided by Crescent Capital Partners.

*The following significant accounting policies have been adopted in the preparation and presentation of the financial report.*

#### (a) Income Tax

Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

##### **Current Tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

##### **Deferred Tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (a) Income Tax (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### *Current and deferred tax for the year*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss. In the case of a business combination, the tax effect is included in the accounting for the business combination.

#### *Tax Consolidation*

The parent entity and ACL Specialist Investments Pty Ltd. have implemented the tax consolidation legislation and have formed a tax-consolidated group from 15 December 2017. The parent entity and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries in the tax consolidated group recognise current or deferred tax amounts arising in respect of their own transactions, events and balances;
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiaries in the tax consolidated group to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

#### (b) Inventories

Inventories represent medical and laboratory supplies. They are measured at the lower of cost and net realisable value.

#### (c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Freehold land and buildings are measured on the cost basis.
- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.

#### *Depreciation*

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (c) Property, plant and equipment (cont'd)

##### *Depreciation (cont'd)*

The ranges of depreciation rates used for each class of depreciable assets are:

| Class of property, plant and equipment | Depreciation rate |
|--|-------------------|
| Buildings                              | 2% to 20%         |
| Leasehold improvements                 | 2% to 100%        |
| Plant & equipment                      | 5% to 50%         |
| Leased assets                          | 14% to 20%        |
| Freehold land is not depreciated.      |                   |

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

#### (d) Intangible assets

##### *Intangible assets acquired separately*

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

##### *(e) Impairment of tangible and intangible assets*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives such as goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit other than goodwill) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

##### *(f) Leased assets*

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (f) Leased assets (cont'd)

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

Lease incentives under operating leases are recognised as deferred income. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (g) Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the amount of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the acquisition date amount of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss.

Acquisition related costs are expensed as incurred.

#### (h) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The consolidated entity operates share-based payment employee share and option schemes for accounting purposes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is measured at the market bid price at grant date. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

#### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (j) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### **(j) Provisions (cont'd)**

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### ***Onerous contracts***

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### **(k) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or other similar allowances.

#### ***Rendering of services***

Revenue from the provision of services is recognised when the related services are completed. Revenue is accrued at balance date for services which are completed but yet to be invoiced.

#### ***Rental income***

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### **(l) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the Statement of cash flows on a gross basis. 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.

#### **(m) Financial instruments**

##### ***Classification***

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the nature of the item and the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

##### ***Financial liabilities***

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

#### **(n) Adoption of new and revised accounting**

The Group has adopted all of the recognition and measurement requirements of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year. The adoption of these Standards and Interpretations did not have any material impact on the disclosures or the amounts recognised in the consolidated financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (o) Standards and Interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not applicable to the Group for the financial year ended 30 June 2018. The Group has elected not to early adopt these new standards and interpretations. An assessment of the future impact of the new standards and interpretations is set out below.

##### (i) AASB 9 Financial Instruments

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is applicable for accounting periods beginning 1 January 2018. The standard introduces new requirements for the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The classification categories of held to maturity, loans and receivables and available for sale will be replaced by amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The new impairment model requires the recognition of impairment provisions for financial assets based upon expected credit losses rather than on incurred credit losses.

The Group does not use hedge accounting therefore these changes will have no impact on the Group.

The Group is yet to undertake a detailed assessment of the impact of AASB 9 in relation to the financial assets or the new impairment model, however, based on the Group's preliminary assessment, the Standard is not expected to have a significant impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

##### (i) AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related interpretations for revenue recognition with an effective date for accounting periods beginning 1 January 2018. The core principle is that revenue must be recognised when goods or services are transferred to a customer, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This is achieved by applying a five step model:

- Identify the contract with the customer
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract based upon relative standalone selling prices
- Recognise revenue when (or as) the performance obligations are settled

The Group is yet to undertake a detailed assessment of the impact of AASB15, however, based on the Group's preliminary assessment, each pathology service provided to a patient represents a performance obligation. Accordingly, revenue will be recognised for each of these performance obligations upon the provision of results to the doctor or patient. The timing of revenue recognition for each performance obligation is expected to be broadly in line with current practice. No material impact is expected on the financial statements of the Group upon adoption for the financial year ending 30 June 2019.

##### (ii) AASB 16 Leases

AASB 16 replaces AASB 117 *Leases* and some lease-related interpretations with an effective date for accounting periods beginning 1 January 2019. The standard primarily impacts accounting by lessees as it requires the recognition of right of use assets and lease liabilities for all leases unless the lease term is less than 12 months or the underlying asset is of a low value. Assets and liabilities arising from a lease are initially measured on a present value basis including non-cancellable lease payments and any payments to be made in optional periods if the lessee is reasonably certain to extend the lease.

Lease payments, currently expensed through the Occupancy Costs expense line in the Statement of Profit or Loss and Other Comprehensive Income, will be replaced with a straight line amortisation of the right of use asset and an interest expense from carrying the lease liability at present value.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (o) Standards and Interpretations issued but not yet effective (cont'd)

##### (iii) AASB 16 Leases (cont'd)

The Group is yet to undertake a detailed assessment of the impact of AASB 16, however, based on the Group's preliminary assessment, including the Group having operating lease commitments of \$197,204,000 (Note 18) as at 30 June 2018, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 will be material including:

- There will be a significant increase in lease related assets and financial liabilities recognised on the balance sheet.
- EBITDA in the statement of profit or loss and other comprehensive income will be higher as former off balance sheet leases will be presented in depreciation and finance costs rather than being included in operating expenses.
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses.
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities.

##### (iii) AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share Based Payment Transactions

AASB 2016-5 amends AASB 2 Share-based Payments to address accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Group is yet to undertake a detailed assessment of the impacts of AASB 2016-5, however, no material impact is expected on the financial statements of the Group upon adoption for the financial year ending 30 June 2019.

### NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

#### Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be relevant. Actual results may differ from these estimates.

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.

#### (a) Critical estimates in applying the entity's accounting policies

The following are the critical estimates that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

##### **Employee entitlements**

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in salaries and wages;
- Future on-cost rates;
- Experience of employee departures and period of service; and
- Appropriate discount rate to reflect long term liabilities at present value.

#### (b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

#### (b) Key sources of estimation uncertainty (cont'd)

##### ***Onerous lease contracts***

The onerous lease contract provision has been derived on the basis of the most recent assessment of the likely net unavoidable cost to the end of the contract term. Management have considered the future costs of the contract which can be determined with a high degree of accuracy. However, the future economic benefits expected to be received are based on forecasts. Management consider the liability to be the best estimate of the net unavoidable costs as at year-end.

##### ***Impairment of tangible and intangible assets***

Determining whether assets are impaired requires an estimation of recoverable amount for the cash-generating units to which these assets have been allocated. The recoverable amount of each cash-generating unit is the greater of its value in use or fair value less costs to sell.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

The carrying amount of intangible assets at the end of the reporting period was \$13,002,000 (2017: \$13,000,000).

##### ***Share based payments***

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the day on which they are granted. The fair value is determined using a Black-Scholes model and is recognised as an expense over the vesting period, with a corresponding increase to an equity account.

##### ***Deferred tax balances***

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. No tax losses have been recognised as deferred tax assets.

### NOTE 4: REVENUE

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| An analysis of the Group's revenue for the year is as follows: |                |                |
| Revenue from rendering services                                | 376,088        | 337,873        |
| Rental revenue   | 951            | 900            |
| Other revenue  | 2,206          | 995            |
| <b>Total revenue</b>   | <b>379,245</b> | <b>339,768</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 5: PROFIT FOR THE YEAR BEFORE TAX**

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>(a) Other expenses</b>                                     |                |                |
| Courier and vehicle costs                                     | 6,911          | 6,636          |
| Loss on disposal of property, plant and equipment             | 1,244          | 3,624          |
| Foreign exchange  | 47             | 41             |
| Other costs   | 30,829         | 32,011         |
|   | <b>39,031</b>  | <b>42,312</b>  |
| <b>(b) Employee benefits expense</b>                          |                |                |
| Post-employment - defined contribution superannuation expense | 13,724         | 13,197         |
| Termination benefits  | 2,482          | 2,839          |
| Other employee benefits including share based payments        | 172,362        | 162,444        |
|   | <b>188,568</b> | <b>178,480</b> |
| <b>(c) Depreciation expense</b>                               |                |                |
| Buildings   | -              | 101            |
| Leasehold improvements  | 3,931          | 4,435          |
| Plant and equipment   | 7,261          | 7,830          |
| Leased plant and equipment                                    | 126            | 144            |
|   | <b>11,318</b>  | <b>12,510</b>  |
| <b>(d) Operating lease rental expense</b>                     |                |                |
| Minimum lease payments  | 74,852         | 70,128         |

**NOTE 6: FINANCE INCOME AND EXPENSE**

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Finance income</b>                        |                |                |
| Bank deposits                                | 47             | 53             |
| <b>Finance expenses</b>                      |                |                |
| Interest on related party loans              | (3,561)        | (3,353)        |
| Interest on obligations under finance leases | (84)           | (78)           |
|  | <b>(3,645)</b> | <b>(3,431)</b> |
| <b>Net finance costs</b>                     | <b>(3,598)</b> | <b>(3,378)</b> |

CLINICAL LABORATORIES PTY. LTD.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 7: TRADE AND OTHER RECEIVABLES**

|                                    | 2018<br>\$'000 | 2017<br>\$'000 |
|------------------------------------|----------------|----------------|
| <b>CURRENT</b>                     |                |                |
| Trade receivables                  | 34,517         | 31,286         |
| Provision for doubtful debts       | (1,958)        | (2,008)        |
|                                    | <u>32,559</u>  | <u>29,278</u>  |
| Goods and services tax recoverable | 1,546          | 1,362          |
|                                    | <u>34,105</u>  | <u>30,640</u>  |

**NOTE 8: INVENTORIES**

|                             | 2018<br>\$'000 | 2017<br>\$'000 |
|-----------------------------|----------------|----------------|
| <b>CURRENT</b>              |                |                |
| Consumable supplies at cost | 7,122          | 7,695          |

**NOTE 9: OTHER FINANCIAL ASSETS**

|                          | 2018<br>\$'000 | 2017<br>\$'000 |
|--------------------------|----------------|----------------|
| <b>CURRENT</b>           |                |                |
| Prepayments              | 3,397          | 2,558          |
| Bonds and securities     | 2,914          | 301            |
| Related party loans      | 7,057          | 9,956          |
|                          | <u>13,368</u>  | <u>12,815</u>  |
| <b>NON-CURRENT</b>       |                |                |
| Other Investments - cost | 510            | -              |
|                          | <u>510</u>     | <u>-</u>       |

**NOTE 10: PLANT AND EQUIPMENT**

|   | Leasehold<br>Improvements<br>\$'000 | Plant &<br>Equipment<br>\$'000 | Leased Plant &<br>Equipment<br>\$'000 | Capital Work in<br>Progress<br>\$'000 | Total<br>\$'000 |
|---|-------------------------------------|--------------------------------|---------------------------------------|---------------------------------------|-----------------|
| <b>2018</b>   |                                     |                                |                                       |                                       |                 |
| Gross carrying amount   | 30,268                              | 60,642                         | 2,560                                 | 1,689                                 | 95,159          |
| Accumulated depreciation  | (19,397)                            | (39,662)                       | (2,434)                               | -                                     | (61,493)        |
| <b>Total property, plant and<br/>equipment as at 30 June 2018</b> | <b>10,871</b>                       | <b>20,980</b>                  | <b>126</b>                            | <b>1,689</b>                          | <b>33,666</b>   |
| <b>2017</b>   |                                     |                                |                                       |                                       |                 |
| Gross carrying amount   | 28,149                              | 63,397                         | 2,812                                 | -                                     | 94,358          |
| Accumulated depreciation  | (16,084)                            | (37,863)                       | (2,532)                               | -                                     | (56,479)        |
| <b>Total property, plant and<br/>equipment as at 30 June 2017</b> | <b>12,065</b>                       | <b>25,534</b>                  | <b>280</b>                            | <b>-</b>                              | <b>37,879</b>   |

CLINICAL LABORATORIES PTY. LTD.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 11: GOODWILL**

|                            | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------------------|----------------|----------------|
| Goodwill from acquisitions | 13,002         | 13,002         |

**(a) Impairment tests for goodwill**

Goodwill is allocated to a cash generating unit or units (CGU's) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. The recoverable amount of a CGU is based on value in use calculations. These calculations use cash projections based on financial budgets/forecasts approved by management for covering a minimum period of one year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 4.4% (2017: 3.5%) for cash flows in year two to five which is based on historic growth rate and industry trends and a terminal value growth rate of 3% (2017: 3%) a discount rate of 8.5% (2017: 8.5%) to determine value-in-use.

**NOTE 12: DEFERRED TAXES**

|                          | 2018<br>\$'000 | 2017<br>\$'000 |
|--------------------------|----------------|----------------|
| <b>NON-CURRENT</b>       |                |                |
| Deferred tax assets      | 10,418         | 11,665         |
| Deferred tax liabilities | 3              | 3              |

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. No tax losses have been recognised as deferred tax assets.

**NOTE 13: TRADE AND OTHER PAYABLES**

|                               | 2018<br>\$'000 | 2017<br>\$'000 |
|-------------------------------|----------------|----------------|
| <b>CURRENT</b>                |                |                |
| Trade creditors               | 9,121          | 7,466          |
| Sundry creditors and accruals | 13,849         | 13,549         |
|                               | <b>22,970</b>  | <b>21,015</b>  |

CLINICAL LABORATORIES PTY. LTD.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2018

**NOTE 14: BORROWINGS**

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>CURRENT</b>                            |                |                |
| <b>Unsecured – at amortised cost</b>      |                |                |
| Related party loans <sup>(i)</sup>        | 1,287          | -              |
| <b>Secured – at amortised cost</b>        |                |                |
| Finance lease liabilities <sup>(ii)</sup> | 20             | 203            |
|   | <b>1,307</b>   | <b>203</b>     |
| <b>NON-CURRENT</b>                        |                |                |
| <b>Unsecured</b>                          |                |                |
| Related party loans <sup>(i)</sup>        | 52,213         | 48,244         |
| <b>Secured - at amortised cost</b>        |                |                |
| Finance lease liabilities <sup>(ii)</sup> | -              | 20             |
|   | <b>52,213</b>  | <b>48,264</b>  |

(i) Related party loans are at arm's length and are interest bearing.

(ii) The finance lease liabilities are secured by way of fixed charges over the leased assets to which they relate and have lease terms ranging from 1 to 12 years.

**NOTE 15: PROVISIONS**

|                                  | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>CURRENT</b>                   |                |                |
| Employee benefits <sup>(i)</sup> | 30,624         | 30,298         |
| Other                            | 2,521          | 2,486          |
|                                  | <b>33,145</b>  | <b>32,784</b>  |
| <b>NON-CURRENT</b>               |                |                |
| Employee benefits <sup>(i)</sup> | 3,941          | 4,263          |
|                                  | <b>3,941</b>   | <b>4,263</b>   |

(i) The current provision for employee entitlements is calculated using probability models of employees reaching vesting dates. The calculations are based on pattern of leave taken and are grossed up for future rates, discounted to present value at appropriate discount rates. They are inclusive of on-costs.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 16: ISSUED CAPITAL AND CONTRIBUTED EQUITY

|                                       | 2018<br>\$'000 | 2017<br>\$'000 |
|---------------------------------------|----------------|----------------|
| <b>(a) Issued and paid up capital</b> |                |                |
| <b>Fully paid ordinary shares</b>     |                |                |
| At the start of the financial year    | 109,515        | 97,321         |
| Equity Contribution <sup>(i)</sup>    | -              | 31,740         |
| Return of capital <sup>(ii)</sup>     | -              | (19,546)       |
| At the end of the financial year      | <b>109,515</b> | <b>109,515</b> |

|                                    | 2018<br>Number<br>of Shares | 2017<br>Number<br>of Shares |
|------------------------------------|-----------------------------|-----------------------------|
| <b>Fully paid ordinary shares</b>  |                             |                             |
| At the start of the financial year | 241,205,681                 | 157,985,874                 |
| Equity Contribution <sup>(i)</sup> | 914,079                     | 83,219,807                  |
| At the end of the financial year   | <b>242,119,760</b>          | <b>241,205,681</b>          |

(i) New shares issued in 2018 include management shares recognised at \$0 for accounting purposes in accordance with AASB 2.

(ii) On 6 October 2016, the Directors resolved to reduce the share capital of the Company by \$19.5 million in accordance with section 256C of the Corporations Act. The consideration for the return of capital was left outstanding as loans owed by the Company to its shareholders.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>(b) Other contributed equity</b>        |                |                |
| Equity Contribution <sup>(i)</sup>         | -              | 128,989        |
| <b>Equity contribution</b>                 | -              | 128,989        |
| At the start and end of the financial year | <b>128,989</b> | <b>128,989</b> |

(i) Healthscope Limited made an equity contribution to the Company as part of a group wide reorganisation which included rationalisation of intercompany loans.

On 1 August 2018, the Directors resolved to undertake a capital reduction in accordance with section 256C of the Corporations Act, reducing the Company's share capital by \$128,989,000.

### NOTE 17: DIVIDENDS

During the year Clinical Laboratories Pty. Ltd. did not make any dividend payments (2017: Nil). Since the end of the current year, the Group has not declared any dividends.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 18: LEASES

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>(a) Finance lease commitments:</b>         |                |                |
| Minimum future lease payments                 |                |                |
| Payable:                                      |                |                |
| - No later than 1 year                        | 20             | 209            |
| - Later than 1 year but no later than 5 years | -              | 20             |
| Minimum lease payments                        | 20             | 229            |
| Less future finance charges                   | -              | (6)            |
| Present value of minimum lease payments       | <b>20</b>      | <b>223</b>     |
| <br>Included in the financial statements:     |                |                |
| - Current borrowings (Note 14)                | 20             | 203            |
| - Non-current borrowings (Note 14)            | -              | 20             |
| Total   | <b>20</b>      | <b>223</b>     |

These commitments represent future payments for various plant and equipment and have been recognised as a liability in the current financial period. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

In relation to finance leases there are no restrictions imposed by lease arrangements.

#### (b) Operating lease commitments:

Operating leases relate to properties leased by the Group with lease terms between 1 and 10 years. All operating leases contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Non-cancellable operating leases contracted for but not capitalised in the financial report |                |                |
| Payable:  |                |                |
| - Not later than 1 year   | 66,766         | 63,388         |
| - Later than 1 year but no later than 5 years   | 103,966        | 95,781         |
| - Later than 5 years  | 26,472         | 8,367          |
|   | <b>197,204</b> | <b>167,536</b> |

### NOTE 19: CHANGES TO THE COMPOSITION OF THE GROUP

During the 2018 financial year, the Company acquired 100% of the shares of ACL Specialist Investments Pty Ltd.

During 2017 the Group acquired the Victorian Pathology business from St John of God Health Care Inc. (SJOG). As part of this acquisition, SJOG became a shareholder in Clinical Laboratories Pty Ltd.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

### NOTE 20: NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

|                           | 2018<br>\$'000 | 2017<br>\$'000 |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 6,867          | 7,036          |

#### (b) Disposals

There were nil disposals in the current or prior financial year.

#### (c) Acquisitions

On 15 December 2017, Clinical Laboratories Pty Ltd acquired ACL Specialist Investments Pty Ltd however there was no cash inflows as part of the acquisition.

In the prior financial year, on 10 October 2016, the Company acquired the Victorian pathology business of St John of God Health Care Inc. however there was no cash inflows as part of the acquisition.

#### (d) Reconciliation of net loss for the year to net cash flows from operating activities

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Profit / (loss) for the year before taxation                 | (7,641)        | (27,612)       |
| <b>Non-cash flows in operating profit</b>                    |                |                |
| Depreciation   | 11,318         | 12,510         |
| Impairment of assets   | -              | -              |
| Profit/(loss) on sale of assets                              | 1,244          | 3,624          |
| Salary costs capitalised                                     | -              | -              |
| Write-off intercompany loan                                  | -              | -              |
| Income tax paid  | 70             | (106)          |
| Share based payments expense                                 | 308            | 293            |
| Accrued interest expense on borrowing                        | 3,554          | 3,114          |
|  | <b>8,853</b>   | <b>(8,177)</b> |
| <b>Changes in assets and liabilities</b>                     |                |                |
| (Increase) / decrease in trade and other receivables         | (3,449)        | (958)          |
| (Increase) / decrease in other assets                        | (3,453)        | 7,914          |
| (Increase) / decrease in inventories                         | 573            | (5)            |
| Increase / (decrease) to trade and other payables            | 2,162          | 3,541          |
| Increase / (decrease) to provisions                          | 7              | 2,288          |
| <b>Net cash provided by / (used in) operating activities</b> | <b>4,693</b>   | <b>4,603</b>   |

#### (e) Bank facilities and guarantees

At 30 June 2018, the Group had a bank overdraft available of \$5,000,000 which had not been utilised at year end (2017: \$5,000,000, nil utilised).

Financial guarantees also existed in relation to rental properties. The Group has utilised \$16,500 (2017: \$38,000) of its \$16,500 facility (2017: \$80,000) with the ANZ bank and \$5,338,727 (2017: \$2,915,000) of its \$7,500,000 (2017: \$3,000,000) facility with the Commonwealth bank at 30 June 2018.

CLINICAL LABORATORIES PTY. LTD.

**DIRECTORS' DECLARATION**

As detailed in Note 2 to the financial statements, the Group is not a reporting entity because in the opinion of the Directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the Directors' reporting requirements under the Corporations Act 2001.

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards to the extent described in Note 2 and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors



**M. McGrath**  
**Director**

Melbourne, 31 October 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CLINICAL LABORATORIES PTY. LTD.

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report, being a special purpose financial report of Clinical Laboratories Pty Ltd "the company" and its subsidiaries, "the Group", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of 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 2018 and of its financial performance for the period then ended; and
- (b) complying with Australian Accounting Standards to the extent described in Note 2 and the *Corporations Regulations 2001*.

*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 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

*Emphasis of Matter – Basis of Accounting*

We draw your attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for any other purpose. Our opinion is not modified in respect of this matter.

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's director's report for the period ended 30 June 2018, 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 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CLINICAL LABORATORIES PTY. LTD.**

*Responsibilities of the Directors for the Financial Report*

The directors of the Group are responsible for the preparation of the 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 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 Group's ability 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



B POWERS  
Partner

Date: 31 October 2018



PITCHER PARTNERS  
Melbourne