Southern Sun Clinics Pty Ltd

ACN 601 434 511

Annual Report
52 week period ended 28 June 2020

Southern Sun Clinics Pty Ltd
Annual Report - 28 June 2020

Contents

Directors' report

The Directors present their report on the consolidated group (the Group) consisting of Southern Sun Clinics Pty Ltd (the Company) and the entities it controlled at the end of, or during, the 52 week period ended 28 June 2020 (the year ended 28 June 2020).

Directors

The following persons held office as Directors of Southern Sun Clinics Pty Ltd during the financial year and up to the date of this report, unless otherwise noted:

Daren McKennay
Glenn Haifer
Ian Katz
Paul Richard
Ciaron Murphy
Xiang Jing Wu (appointed 19 December 2019)
Victor Taslim (resigned 18 December 2019)

Principal activities

During the year, the principal continuing activities of the Group consisted of providing skin cancer diagnostics, treatment and prevention services. There was no significant change in the nature of the activity of the Group during the year.

Dividends - Southern Sun Clinics Pty Ltd

Dividends paid to members during the financial year were as follows:

	2020	2019
	$	$
Final ordinary dividend	**-**	-

Review of operations

The profit from ordinary activities after income tax amounted to $1,243,504 (2019: $362,142).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the year. Whilst the Group has been impacted by COVID-19 pandemic, the business remained robust throughout the period with estimated operating profit impact for the financial year of approximately ($0.5 million). The Group did not qualify for JobKeeper program, and results have quickly rebounded (exceeding prior year from May 2020 onwards). Year to date and forecast positive EBITDA combined with closing year end cash balance of $4.0 million provides the Group adequate resources to continue in operational existence for the foreseeable future.

Events since the end of the financial year

On 30 June 2020, the Company declared and paid a $0.5 million fully franked dividend to members out of distributable reserves, following subsidiary company distributions. In August 2020, the Group completed the acquisition of a skin cancer clinic in NSW and a pathology lab in QLD, and a skin cancer clinic in NSW in October. In October 2020, the convertible loan note holders exercised their right to convert all convertible notes into ordinary shares.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not affected by any significant environmental regulation in respect of its operations.

Directors' report

Insurance of officers and indemnities

(a) Insurance of officers

During the financial year, Southern Sun Clinics Pty Ltd insured the Directors and Officers of the Company and its' controlled entities to the limit of $5.0 million (2019: $5.0 million) for legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings.

(b) Indemnity of auditors

Southern Sun Clinics Pty Ltd has agreed to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from Southern Sun Clinics Pty Ltd's breach of their agreement. The indemnity stipulates that Southern Sun Clinics Pty Ltd will meet the full amount of any such liabilities including a reasonable amount of legal costs.

This report is made in accordance with a resolution of Directors.

Daren McKennay
Director

Sydney

30.10.2020

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These financial statements are the consolidated financial statements for the Group consisting of Southern Sun Clinics Pty Ltd and the entities it controls. The financial statements are presented in the Australian currency.

Southern Sun Clinics Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Southern Sun Clinics Pty Ltd
Unit 18, 7 Sefton Road
Thornleigh
NSW 22120

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 3, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 30/10/2020. The Directors have the power to amend and reissue the financial statements.

Consolidated statement of comprehensive income

	Notes	**52 weeks ending 28 June 2020**	53 weeks ending 30 June 2019
		$	$
Revenue from continuing operations	1	**23,947,968**	22,507,966
Other income	2(a)	**194,752**	282
Pathologist expenses		**(2,904,068)**	(2,661,285)
Employee benefits expense		**(9,726,581)**	(9,053,294)
Acquisition transaction expenses		**(381,044)**	(117,177)
Administration, consultancy, governance, marketing and other professional services expenses		**(3,062,525)**	(3,370,452)
Depreciation and amortisation	2(b)	**(2,694,242)**	(1,173,898)
Reversal of Intangible impairment expense	4(b)	**463,688**	-
Medical supplies		**(1,897,488)**	(1,714,834)
Occupancy related expenses		**(1,281,243)**	(2,696,634)
Other expenses		**(986,304)**	(880,545)
Shared based payment expense		**(129,600)**	(181,836)
Finance expenses		**(584,245)**	(296,151)
Profit before income tax		**959,067**	362,142
Income tax benefit		**284,437**	-
Profit for the year		**1,243,504**	362,142
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**1,243,504**	362,142
Income is attributable to:			
Owners of Southern Sun Clinics Pty Ltd		**1,140,587**	218,113
Non-controlling interests		**102,917**	144,029
		1,243,504	362,142
Total comprehensive income for the year is attributable to:			
Owners of Southern Sun Clinics Pty Ltd		**1,140,587**	218,113
Non-controlling interests		**102,917**	144,029
		1,243,504	362,142

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

Consolidated statement of financial position

	Notes	**28 June 2020**	30 June 2019
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	3(b)	**4,034,086**	382,105
Trade and other receivables	3(a)	**2,406,759**	2,324,806
Inventories	4(d)	**471,541**	357,342
Total current assets		**6,912,386**	3,064,253
Non-current assets			
Deposits	3(a)	**5,954**	5,954
Property, plant and equipment	4(a)	**3,275,594**	3,426,040
Right-of-use assets	4(g)	**4,435,213**	-
Intangible assets	4(b)	**3,284,629**	295,067
Total non-current assets		**11,001,390**	3,727,061
Total assets		**17,913,776**	6,791,314
LIABILITIES			
Current liabilities			
Trade and other payables	3(c)	**4,338,428**	3,241,946
Borrowings	3(d)	**928,000**	-
Current tax liabilities	4(c)	**46,901**	-
Lease liabilities	4(g)	**1,643,377**	-
Deferred payments	4(f)	**98,958**	150,937
Employee benefit obligations - current	4(e)	**353,923**	342,627
Total current liabilities		**7,409,587**	3,735,510
Non-current liabilities			
Deferred tax liabilities	4(c)	**372,922**	80,260
Borrowings	3(d)	**2,338,841**	-
Lease liabilities	4(g)	**2,900,808**	-
Deferred payments	4(f)	**19,756**	26,039
Employee benefit obligations	4(e)	**155,622**	125,822
Total non-current liabilities		**5,787,949**	232,121
Total liabilities		**13,197,536**	3,967,631
Net assets		**4,716,240**	2,823,683
EQUITY			
Share capital	5(a)	**22,657,137**	22,657,137
Convertible loan notes	5(b)	**12,991,696**	12,749,112
Other reserves	5(c)	**(14,526,990)**	(14,656,590)
Loss reserve	5(d)	**(18,403,641)**	(18,403,641)
Retained earnings	5(d)	**1,358,700**	218,113
Non-controlling interests		**639,338**	259,552
Total equity		**4,716,240**	2,823,683

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Notes	Share capital	Convertible Loan Notes	Other reserves	Loss reserve	Retained earnings/ (losses)	Total	Non-controlling interests	Total equity
		Attributable to the owners of Southern Sun Clinics Pty Ltd							
		$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
At 24 June 2018		**22,657,137**	**12,123,794**	**(14,838,426)**	**-**	**(18,403,641)**	**1,538,864**	**260,435**	**1,799,299**
Transfer to Loss reserve	5(d)	-	-	-	(18,403,641)	18,403,641	-	-	**-**
Profit for the year		-	-	-	-	218,113	218,113	144,029	**362,142**
Distributions to non-controlling interests		-	-	-	-	-	-	(144,912)	**(144,912)**
Convertible Loan Note - interest settled & conversation option expiry	5(b)	-	625,318	-	-	-	625,318	-	**625,318**
Share schemes - employee share scheme and clinic tracking shares	5(c)	-	-	181,836	-	-	181,836	-	**181,836**
At 30 June 2019		**22,657,137**	**12,749,112**	**(14,656,590)**	**(18,403,641)**	**218,113**	**2,564,131**	**259,552**	**2,823,683**
Profit for the year		-	-	-	-	1,140,587	1,140,587	102,917	**1,243,504**
Distributions to non-controlling interests		-	-	-	-	-	-	(150,632)	**(150,632)**
Purchase of non-controlling interest		-	-	-	-	-	-	427,501	**427,501**
Convertible Loan Note - interest settled	5(b)	-	242,584	-	-	-	242,584	-	**242,584**
Share schemes - employee share scheme and clinic tracking shares	5(c)	-	-	129,600	-	-	129,600	-	**129,600**
At 28 June 2020		**22,657,137**	**12,991,696**	**(14,526,990)**	**(18,403,641)**	**1,358,700**	**4,076,902**	**639,338**	**4,716,240**

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

Consolidated statement of cash flows

	Notes	**52 weeks ending 30 June 2020**	53 weeks ending 30 June 2019
		$	$
Cash flows from operating activities			
Receipts from customers (net of GST)		**24,035,969**	22,245,965
Payments to suppliers and employees (net of GST)		**(19,481,344)**	(21,092,105)
		4,554,625	1,153,860
Income tax paid		**-**	-
Interest and other income received		**194,752**	282
Net cash inflow from operating activities	6(a)	**4,749,377**	1,154,142
Cash flows from investing activities			
Payments for acquisitions, net of cash acquired	9(a)	**(1,826,022)**	(149,738)
Payment of deferred earn-outs from prior acquisitions		**(175,330)**	(124,406)
Payments for property, plant and equipment		**(975,799)**	(1,377,713)
Net cash outflow from investing activities		**(2,977,151)**	(1,651,857)
Cash flows from financing activities			
Principal elements of lease payments		**(1,404,612)**	-
Distributions paid to non-controlling interests		**(150,632)**	(144,912)
Proceeds from borrowings		**3,470,141**	-
Repayment of borrowings and interest		**(35,142)**	-
Net cash inflow/ (outflow) from financing activities		**1,879,755**	(144,912)
Net increase/ (decrease) in cash and cash equivalents		**3,651,981**	(642,627)
Cash and cash equivalents at the start of the financial year		**382,105**	1,024,732
Cash and cash equivalents at end of year	3(b)	**4,034,086**	382,105

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

Contents of the notes to the consolidated financial statements

1 Revenue

The Group derives the following types of revenue:

	2020	2019
	$	$
From continuing operations - recognised at a point in time		
Rendering of services		
Clinic	**10,861,323**	10,622,683
Pathology	**12,005,371**	10,556,845
Imaging	**1,081,274**	1,328,438
Total revenue from continuing operations	**23,947,968**	22,507,966

Revenue has been presented on a net basis for the Group's share of clinic revenues/ costs on the basis that the Group acts as an agent for the doctors to collect the clinic billings and as a result, the Group's revenue from clinic services reflects the Group's service fee element only.

(a) Recognising revenue from major business activities

Revenue is recognised for the major business activities using the methods outlined below.

(i) Clinic revenue

Clinic revenue represents support services provided to doctors (enabling them to treat patients), in consideration for a % share of billings, as determined by each doctor's medical services agreement. Revenue is recognised in the period in which doctors' services are rendered to patients.

(ii) Pathology revenue

Pathology revenue is recognised on a per case basis, using the prevailing Medicare item rates, in the period in which the services are rendered.

(iii) Imaging revenue

Imaging revenue is recognised from providing de-identified images on a per lesion basis, using the agreed contract rate, in the period in which the images are delivered.

2 Other income and expense items

(a) Other income

	2020	2019
	$	$
Interest	**-**	282
Other income	**194,752**	-
	194,752	282

Other income relates to Federal and State Government COVID-19 rebates provided for PAYG and payroll tax.

(b) Expenses

	2020	2019
	$	$
Depreciation	**1,127,487**	1,126,576
Depreciation of right-of-use assets	**1,388,629**	-
Amortisation	**178,126**	47,322
Total depreciation and amortisation	**2,694,242**	1,173,898

3 Financial assets and financial liabilities

(a) Trade and other receivables

	2020			2019		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Trade receivables	**81,223**	**-**	**81,223**	247,605	-	247,605
Other receivables	**85,414**	**-**	**85,414**	150,756	-	150,756
Contract assets	**1,260,232**	**-**	**1,260,232**	1,056,934	-	1,056,934
Monies held in trust	**652,337**	**-**	**652,337**	555,617	-	555,617
Prepayments	**327,553**	**-**	**327,553**	313,894	-	313,894
Deposits	-	**5,954**	**5,954**	-	5,954	5,954
	2,406,759	**5,954**	**2,412,713**	2,324,806	5,954	2,330,760

(i) Classification as trade and other receivables

Contract assets represent clinic, pathology and imaging accrued revenue amounts which are in the process of being billed. Accrued revenue is generally due for settlement within 14 days and therefore is all classified as current. The Group's other accounting policies for trade and other receivables are outlined in note 17(j).

Monies held in trust (trust bank accounts held on behalf of each clinic) are classified as trade and other receivables until the Group is entitled to its service fee, usually within 7 days of the period end. The share owing to doctors (disbursed the following week) is shown within trade payables.

Deposits are presented as trade and other receivables as they have a maturity of more than 3 months from the date of acquisition. These deposits relate to security deposits provided for our property leases.

(b) Cash and cash equivalents

	2020	2019
	$	$
Current assets		
Cash at bank and in hand	**4,034,086**	382,105

(i) Classification as cash equivalents

Cash at bank is presented as cash and cash equivalents if it has a maturity of 3 months or less and are repayable with 24 hours notice with no loss of interest. The year on year increase in cash balance reflects the improved operating results, $1.4 million working capital drawdown from the borrowing facility and deferral of PAYG/ BAS/ payroll tax liabilities as permitted by State and Federal Government COVID-19 reliefs for businesses.

(c) Trade and other payables

	2020	2019
	$	$
Current liabilities		
Trade payables	**2,067,276**	1,944,156
Accrued expenses	**1,001,401**	610,390
Payroll tax and other statutory liabilities	**920,625**	358,274
Make good provisions	**349,126**	329,126
	4,338,428	3,241,946

Trade payables are unsecured and are usually paid within 30-90 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. The increased balance at the year-end primarily reflects payment deferrals agreed with State and Federal Governments for PAYG/BAS/ payroll taxes as part of their COVID-19 relief for businesses.

3 Financial assets and financial liabilities (continued)

(d) Borrowings

	2020	2019
	$	$
Secured		
Interest bearing - current	**1,000,000**	-
Interest bearing - non current	**2,440,035**	-
Unamortised fees - current	**(72,000)**	
Unamortised fees - non current	**(101,194)**	-
Total secured borrowings	**3,266,841**	-

In November 2019, the Group entered into a 3 year, $10 million secured interest-bearing loan facility with Macquarie Bank. The facility is split into an $8 million acquisition facility (Facility A), and $2 million working capital and bank guarantee facility (Facility B), with $0.2 million repayments each quarter for Facility A and final residual repayment of Facility A and Facility B in November 2022.

The facility was used during the year to fund the 2 clinic acquisitions, replace bank guarantees previously secured by the majority shareholder and provide a working capital buffer during the COVID-19 pandemic. The facility includes quarterly reporting and financial covenant obligations, all of which were successfully completed as scheduled. As part of the Group's COVID-19 mitigation response, an agreed deferral of first and second principal repayments (from 31 March 2020 and 30 June 2020 to 30 September 2020) was obtained from Macquarie. As the business trading remained robust, the Group did not need the full deferral and was able to fully repay the deferred principal amounts on 30 June 2020.

4 Non-financial assets and liabilities

(a) Property, plant and equipment

	Plant and equipment	**Furniture, fittings and equipment**	**Motor vehicles**	**Leasehold improvements**	**Total**
	$	**$**	**$**	**$**	**$**
At 30 June 2019					
Cost	1,507,449	3,793,876	5,455	2,289,133	7,595,913
Accumulated depreciation	(1,172,626)	(2,212,258)	(5,455)	(779,534)	(4,169,873)
Net book amount	**334,823**	**1,581,618**	**-**	**1,509,599**	**3,426,040**
At 28 June 2020					
Cost	1,890,026	4,268,322	5,455	2,405,556	8,569,359
Accumulated depreciation	(1,354,656)	(2,912,816)	(5,455)	(1,020,838)	(5,293,765)
Net book amount	**535,370**	**1,355,506**	**-**	**1,384,718**	**3,275,594**

Property, plant and equipment is recognised at historical cost less depreciation.

Depreciation is calculated using the straight-line method to allocate cost, net of residual values, over the estimated useful lives as follows:

- Plant and equipment — 5 years
- Furniture, fittings and equipment — 4-5 years
- Motor vehicles — 5 years
- Leasehold improvements — 10 years

See note 17(l) for the other accounting policies relevant to property, plant and equipment.

4 Non-financial assets and liabilities (continued)

(b) Intangible assets

	Goodwill	Customer relationships	Total
	$	$	$
At 30 June 2019			
Cost	5,254,498	5,941,916	11,196,414
Accumulated amortisation & impairment	(5,254,498)	(5,646,849)	(10,901,347)
Net book amount	**-**	**295,067**	**295,067**
At 28 June 2020			
Cost	5,878,498	8,021,916	13,900,414
Accumulated amortisation & impairment	(5,254,498)	(5,361,287)	(10,615,785)
Net book amount	**624,000**	**2,660,629**	**3,284,629**

(i) Amortisation methods and useful lives

The Group amortises its customer relationships over a 6 year useful life using the straight-line method.

See note 17(m) for the other accounting policies relevant to intangible assets and note 17(h) for the Group's policy regarding impairments.

(ii) Significant estimates: key assumptions used for value-in-use calculations

The Group tests whether intangible assets have suffered any impairment on an annual basis. The recoverable amount of a cash generating unit is determined based on value-in-use calculations.

The value-in-use cash flow projections are based on the financial budgets approved by the Board covering a one-year period with minimal annual growth rates applied for the years two to five and extrapolated to terminal value. The post-tax cashflows are discounted using a post-tax discount rate of 20% (equivalent to pre-tax rate of 28.6%).

The Group updated the CGU cash flow projections in the current year. There has been a $0.5 million write-back in the year of impairment charges relating to customer relationships from 2017 as a result of significant improvement in the results of several of the acquired clinics. The intangible additions in the year relate to the customer relationships and goodwill acquired as part of the Kalowen and Novocastrian clinic acquisitions, with amortisation in line with the Group's accounting policy.

(c) Current & deferred tax balances

	2020	2019
	$	$
Deferred tax assets expected to be settled within 12 months	**331,338**	-
Deferred tax assets expected to be settled after more than 12 months	**-**	-
	331,338	-
Deferred tax liabilities expected to be settled within 12 months	**-**	-
Deferred tax liabilities expected to be settled after more than 12 months	**704,260**	80,260
	704,260	80,260
Total net deferred tax liabilities recognised	**372,922**	80,260

Significant estimates: The future taxable profit forecasts are probable for the Group to recognise its deferred tax assets for income tax losses at 28 June 2020. The Group has $0.1 million of other net deferred tax assets unrecognised at 28 June 2020 (2019: $1.0 million total unrecognised). The additional deferred tax liability in the current year relates to the Kalowen and Novocastrian clinics acquired intangible assets. An income tax liability of $46,901 has been recorded for the Kalowen clinic as it is not part of the Tax Consolidated Group and cannot use the Group's tax losses.

4 Non-financial assets and liabilities (continued)

(d) Inventories

	2020	2019
	$	$
Current assets		
Inventories	**471,541**	357,342

(e) Employee benefit obligations

	2020			2019		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Leave obligations	**353,923**	**155,622**	**509,545**	342,627	125,822	468,449

The leave obligations cover the Group's liability for long service leave and annual leave. The current portion includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the annual leave provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

(f) Deferred payments

	2020			2019		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Deferred payments	**98,958**	**19,756**	**118,714**	150,937	26,039	176,976

The Group has deferred remuneration arrangements outstanding with two doctors following acquisitions in 2019. and 2020. These payments are contractually due in November 2020, September 2022 and March 2025, subject to doctors on-going service commitments and achieving billing targets. During the year, the Group settled $0.2 million of deferred remuneration arrangements from the Noosaville and Taree clinic acquisitions in 2015 and 2018.

(g) Leases

	2020	2019
	$	$
Right-of-use assets - buildings	**4,435,213**	-
	4,435,213	-
Lease liabilities- current	**1,643,377**	-
Lease liabilities- non current	**2,900,808**	-
	4,544,185	-
Future lease payments in relation to lease liabilities:		
Within one year	**1,663,011**	1,357,502
Later one year but not later than five years	**3,120,395**	1,964,289
Later than five years	**-**	-
	4,783,406	3,321,791

Additions to the right-of-use assets during the year were $1.6m (comparatives not reportable).

5 Equity

(a) Share Capital

	2020	2019	2020	2019
	Shares	Shares	**$**	$
Ordinary shares - fully paid	**11,826**	11,826	**22,657,137**	22,657,137

	Number of shares	$
Balance at 30 June 2019	11,826	22,657,137
Balance at 28 June 2020	**11,826**	**22,657,137**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The Company does not have a limited amount of authorised capital.

(b) Convertible Loan Notes

Interest accrues at 12% per annum for the 2018 tranche, and automatically adds to the face value of loan notes each quarter if not paid. Accordingly, during the year, $0.2 million of interest was added to the loan notes.

	2020	2019	2020	2019
	Notes	Notes	**$**	$
Convertible loan notes - 2016 (0% interest)	**7,933**	7,933	**10,133,011**	10,133,011
Convertible loan notes - 2018 (12% interest)	**2,230,000**	2,230,000	**2,858,685**	2,616,101
	2,237,933	2,237,933	**12,991,696**	12,749,112

	2016 CLNs (0% interest)		2018 CLNs (12% interest)	
	Notes	**$**	**Notes**	**$**
Balance at 30 June 2019	7,933	10,133,011	2,230,000	2,616,101
Interest settlement	-	-	-	242,584
Balance at 28 June 2020	**7,933**	**10,133,011**	**2,230,000**	**2,858,685**

Subsequent to the year end, on 22 October 2020, the noteholders exercised their right to convert all loan notes into ordinary shares. The 2016 convertible loan notes convert into shares at $1,277.32 per share. The 2018 convertible loan notes convert into shares at $643.40 per share. As a result, 12,680 total shares were issued, with no loan notes remaining.

5 Equity (continued)

(c) Other reserves

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

	Equity restructure reserve	Share scheme reserve	Total other reserves
	$	$	$
Balance at 24 June 2018	(14,891,877)	53,451	(14,838,426)
Issue of shares under the employee share scheme	-	178,122	178,122
Charge on clinic tracking shares	-	3,714	3,714
Balance at 30 June 2019	**(14,891,877)**	**235,287**	**(14,656,590)**
Issue of shares under the employee share scheme	-	125,886	125,886
Charge on clinic tracking shares	-	3,714	3,714
Balance at 28 June 2020	**(14,891,877)**	**364,887**	**(14,526,990)**

Nature and purpose of other reserves

(i) Equity restructure reserve

This reserve was used to record the difference between the share capital of Southern Sun Healthcare Pty Limited (the legal parent in 2014) and Southern Sun Clinics Pty Ltd (the legal parent in 2015) immediately post the restructure of the Group on 30 September 2014. There was no movement in the current year.

(ii) Share scheme reserve

The share scheme reserve is used to recognise the value of management shares issued to members of the management team funded through limited recourse loans, as well as to recognise the value of clinic tracking shares issued to doctors. The clinic tracking shares are shares issued in Southern Sun Clinics Pty Ltd, funded through limited recourse loans, with their transfer value linked to the underlying performance of the particular doctor's clinic.

For both schemes, the fair value is calculated at the date the shares and loans are granted and the amounts recognised over the vesting period.

(d) Retained earnings/ (losses) and Loss reserve

	Loss reserve	Retained earnings/ (loses)
	$	$
Balance at 24 June 2018	**-**	**(18,403,641)**
Transfer of accumlated losses to loss reserve	(18,403,641)	18,403,641
Net profit for the year	-	218,113
Balance at 30 June 2019	**(18,403,641)**	**218,113**
Net profit for the year	-	1,140,587
Balance at 28 June 2020	**(18,403,641)**	**1,358,700**

6 Cash flow information

(a) Reconciliation of profit after income tax to net cash inflow from operating activities

	2020	2019
	$	$
Profit for the year	**1,243,504**	362,142
Depreciation, amortisation, and impairment reversal	**2,230,554**	1,173,898
Interest expense	**584,245**	296,151
Change in operating assets and liabilities:		
(Increase)/ decrease in trade and other receivables	**(81,951)**	(599,841)
(Increase)/ decrease in inventory	**(114,200)**	(54,857)
Increase/ (decrease) in trade & other payables	**736,579**	(219,895)
Increase/ (decrease) in provision for income tax payable and deferred tax	**339,563**	35,369
(Decrease)/ Increase in employee benefit obligations and other provisions	**(188,918)**	161,175
Net cash inflow from operating activities	**4,749,377**	1,154,142

7 Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed in note 7(b).

(b) Significant estimates and judgements

- Estimation of current tax and deferred tax - note 4(c)
- Estimated intangible impairment - note 4(b)
- Estimated useful lives of intangible assets – notes 4(b)

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

8 Capital Management

(a) Dividends

No dividends have been paid during the year ended 28 June 2020 (2019: nil). On 30 June 2020, the Company declared and paid a $0.5 million fully franked dividend to members out of distributable reserves of the Company, following subsidiary company distributions.

9 Business combinations

(a) Summary of acquisitions

On 14 February 2020, the Group acquired the trade and assets of Kalowen Skin Cancer Clinic in QLD. Total consideration of $1,456,502 was paid (cash $1,029,001, equity $427,501), allocated below: The Group retains a 70% equity interest.

	$
Property, plant & equipment	**65,000**
Inventory	**31,502**
Intangible customer list	**1,360,000**
Goodwill	**408,000**
Deferred tax liability (on intangible customer list)	**(408,000)**
	1,456,502
Non-controlling interest	**(427,501)**
Net 70% interest acquired	**1,029,001**

On 2 March 2020, the Group acquired the trade, assets and selected liabilities of Novocastrian Skin Cancer Clinic in NSW. Total consideration of $797,019 was paid (all cash) and allocated below: The Group retains a 100% equity interest.

	$
Property, plant & equipment	**30,000**
Inventory	**55,000**
Intangible customer list	**720,000**
Goodwill	**216,000**
Employee benefits	**(7,981)**
Deferred tax liability (on intangible customer list)	**(216,000)**
	797,019

10 Interests in other entities

(a) Material subsidiaries

The Group's principal subsidiaries are set out below. They have share capital consisting of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name of entity	**Place of business/ country of incorporation**	**Ownership interest held by the Group**	
		2020 %	2019 %
Southern Sun Practices Pty Ltd	Australia	**100**	100
Southern Sun Healthcare Pty Ltd	Australia	**100**	100
Gosford SCC Pty Ltd	Australia	**100**	100
Bolton Street Skin Cancer Clinic Pty Ltd	Australia	**100**	100
Wollongong SCC Pty Ltd	Australia	**100**	100
WSCC Healthcare Pty Ltd	Australia	**50**	50
Southern Sun Pathology Pty Ltd	Australia	**100**	100
Orange Skin Cancer Clinic Pty Ltd	Australia	**100**	100
Skin Cancer Clinic Parramatta Pty Ltd	Australia	**100**	100
Ryde Skin Cancer Clinic Pty Ltd	Australia	**100**	100
Aussie Healthcare Unit Trust	Australia	**100**	100
Hornsby Pathology Trust	Australia	**100**	100
Wyong SCC Trust	Australia	**50**	50
Orange Skin Cancer Clinic Unit Trust	Australia	**100**	100
Skin Cancer Clinic Parramatta Trust	Australia	**100**	100
Ryde Skin Cancer Clinics Trust	Australia	**100**	100
Skin Cancer Clinic Hornsby Unit Trust	Australia	**100**	100
Gosford SCC Trust	Australia	**75**	75
Bolton Street Skin Cancer Clinic Trust	Australia	**100**	100
Wollongong SCC Trust	Australia	**100**	100
SunDoctors Coffs Harbour (Southern Cross) Pty Ltd	Australia	**100**	100
SunDoctors Taree Pty Ltd	Australia	**100**	100
DermPath AI Pty Ltd	Australia	**100**	100
SunDoctors Kalowen Pty Ltd	Australia	**70**	-
SunDoctors Novocastrian Pty Ltd	Australia	**100**	-

11 Contingent liabilities and contingent assets

(a) Contingent liabilities

The Group has provided financial guarantees with respect to property lease agreements of $5,954 (2019: $5,954) secured by deposits held by the bank and landlords - see note 3(a).

During the year, the Group provided $500,000 security (funded from the $10m Macquarie facility – see note 3d) to NAB for them to provide the Group with a $500,000 property lease and credit card facility (that had previously been underwritten by the majority shareholder). $102,632 of this facility remains available at 28 June 2020. In addition to this, Macquarie provided a $34,964 property bank guarantee as part of a clinic acquisition.

12 Commitments

See note 4(g) for the commitments under non-cancellable operating leases. The Group has no other commitments.

13 Events occurring after the reporting period

On 30 June 2020, the Company declared and paid a $0.5 million fully franked dividend to members out of distributable reserves, following subsidiary company distributions.

In August and October 2020, the Group completed trade and asset acquisitions of 2 skin cancer clinics (Smart Clinics Burleigh Heads and Byron Bay Skin Cancer Clinic) and a pathology lab (Helix Pathology) in Australia, for total consideration of $1.3 million for 100% equity interests. Helix Pathology, in particular, situated in QLD, provides the ability to expand the geographical reach of pathology services. The Group is in the process of completing the allocation of consideration and acquisition accounting, however the primary assets acquired are the customer relationships.

On 22 October 2020, the convertible loan noteholders exercised their right to convert all loan notes into ordinary shares, resulting in 12,680 shares being issued.

14 Related party transactions

There were no related party transactions during the current or prior year.

15 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PricewaterhouseCoopers

(i) Audit and other assurance services

	2020	2019
Audit and other assurance services	**$**	$
Audit and review of financial statements	**79,040**	76,000
Total remuneration for audit and other assurance services	**79,040**	76,000

(ii) Taxation services

Taxation services		
Compliance services	**30,000**	23,460
Advisory services	**13,311**	-
Total remuneration for taxation services	**43,311**	23,460
Total remuneration of PricewaterhouseCoopers	**122,351**	99,460

16 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2020	2019
	$	$
Balance sheet		
Non-current assets	**14,044,619**	13,672,435
Share capital	**22,657,137**	22,657,137
Retained earnings	**-**	-
Loss reserve	**(21,969,101)**	(21,969,101)
Share scheme reserve	**364,887**	235,287
Convertible loan notes	**12,991,696**	12,749,112
Total equity	**14,044,619**	**13,672,435**
Loss for the year	**-**	-
Total comprehensive expense	**-**	**-**

(b) Guarantees entered in to by the parent entity

The parent entity did not hold any guarantees as at 28 June 2020 and 30 June 2019.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 28 June 2020 and 30 June 2019.

(d) Contractual commitments for the acquisition of property, plant or equipment

At 28 June 2020 and 30 June 2019, the parent entity had no contractual commitments for the acquisition of property, plant and equipment.

17 Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to the year presented, unless otherwise stated. The financial statements are for the Group consisting of Southern Sun Clinics Pty Ltd and its controlled entities.

(a) Basis of preparation

(i) Annual report

In the Directors' opinion, the Company is not a reporting entity because there are no users dependent on general purpose financial reports. The financial report has been prepared on a 52 week retail calendar (1 July 2019 – 28 June 2020), in line with the operations of the Group.

This is a non-statutory, special purpose financial report that has been prepared for the purpose of providing members of the Company with a financial report and must not be used for any other purpose.

The financial report has been prepared in accordance with the recognition and measurement principles of all applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. It contains the disclosures that are mandatory under the Accounting Standards and those considered necessary by the Directors to meet the needs of the members. Southern Sun Clinics Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

(ii) Historical cost convention

These financial statements have been prepared under the historical cost basis.

(iii) Going concern

As at 28 June 2020, the Group had net current liabilities of $0.5 million (2019: net current liabilities of $0.7 million). In making their assessment, the Directors have taken into account the fact that the business generated $4.7 million operating cashflow for the year, the net current liability position has continued to reduce since year end, including full repayment of deferred borrowing principal amounts and deferred BAS/ PAYG/ payroll tax amounts, as well as the forecast cash projections including current year trading to date being significantly ahead of the prior year. The Directors, therefore, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report.

(iv) New and amended standards adopted by the Group

During the year, the Group adopted AASB 16 Leases which had a material impact on the Group.

Title of standard	**Nature of change**	**Impact**	**Mandatory application date/ Date of adoption by Group**
AASB 16 *Leases*	AASB 16 resulted in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. 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, of which the Group has minimal.	The standard affected the accounting for the group's operating leases. Adoption resulted in a right of use asset and corresponding lease liability of $2.8 million being recognised at the Group's transition date of 1 July 2019 with additions of $1.6 million during the year. The classification of lease payments in the cashflow statement changed from operating to financing.	Mandatory for financial years commencing on or after 1 January 2019. The Group adopted the standard at its effective date of 1 July 2019.

The Group also adopted Interpretation 23 Uncertainty over Income Tax Treatments, but this did not have a material impact on the Group.

(v) New standards and interpretations not yet adopted

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

17 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 17(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars ($), which is Southern Sun Clinics Pty Ltd's functional and presentation currency.

17 Summary of significant accounting policies (continued)

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in accordance with AASB 15.

The Group recognises revenue when the performance obligations have been met, the amount can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The specific accounting policies for the Group’s main types of revenue are explained further in note 1. Revenue for other business activities is recognised on the following basis:

(i) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(ii) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 17(h).

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

17 Summary of significant accounting policies (continued)

(f) Leases

Assets and liabilities arising from a lease are initially measured on a present value basis in accordance with AASB 16. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right of-use asset is depreciated over the underlying asset's useful life.

Measurement of lease liabilities: reconciliation from previously reported operating lease commitments to opening lease liabilities at transition

	$
Operating lease commitments disclosed at 30 June 2019	3,321,791
Impact of discounting using the lessee's incremental borrowing rate at the date of initial application	(28,132)
Short-term leases not recognised as a liability	(474,142)
Lease liability recognised at 1 July 2019	**2,819,517**
Of which are:	
Current lease liabilities	892,438
Non-current lease liabilities	1,927,079
	2,819,517

17 Summary of significant accounting policies (continued)

(g) Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the consideration transferred, amount of any non-controlling interest, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss. Acquisition-related costs are expensed as incurred.

17 Summary of significant accounting policies (continued)

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(j) Trade receivables & other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 3(a) for further information about the Group’s accounting for trade receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(k) Inventories

(i) Finished goods

Finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, purchases of finished goods but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

17 Summary of significant accounting policies (continued)

(l) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The depreciation methods and periods used by the Group are disclosed in note 4(a).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Leasehold improvement assets are depreciated over the lease life if it is considered probable the lease life, including renewals will be shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 17(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(i) Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as property, plant and equipment (along with computer hardware) when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as property, plant and equipment and depreciated from the point at which the asset is ready for use.

(m) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 17(g). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(iii) Amortisation methods and periods

Refer to note 4(b) for details about amortisation methods and periods used by the Group for intangible assets.

17 Summary of significant accounting policies (continued)

(n) Trade and other payables

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

(o) Borrowings

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

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(p) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

(q) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

17 Summary of significant accounting policies (continued)

(r) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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

(iii) Share-scheme reserve

The establishment of the Southern Sun Clinics Pty Ltd employee share scheme was designed to provide long-term incentives for senior management and above to deliver long-term shareholder returns. Under the plan, participants are granted shares, funded by limited recourse loan agreements. The establishment of the Southern Sun Clinics Pty Ltd clinic tracking share scheme was designed to provide long-term incentives for lead doctors to deliver long-term shareholder returns by underlying performance of their clinic. Under the plan, participants are granted shares, with transfer value linked to a clinic's performance, funded by limited recourse loan agreements.

The share-based payment expense for both schemes is recognised at fair value over the vesting period of the schemes.

(s) Contributed equity

Ordinary shares and Convertible loan notes are presented as separate classes of equity.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(v) Parent entity financial information

The financial information for the parent entity, Southern Sun Clinics Pty Ltd, disclosed in note 16 has been prepared on the same basis as the consolidated financial statements, except as set out below.

17 Summary of significant accounting policies (continued)

(v) Parent entity financial information (continued)

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Southern Sun Clinics Pty Ltd. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(ii) Tax consolidation legislation

Southern Sun Clinics Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Southern Sun Clinics Pty Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Southern Sun Clinics Pty Ltd also recognizes, where appropriate, the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Directors' declaration

As stated in note 17(a) to the consolidated financial statements, in the Directors' opinion, the Company is not a reporting entity because there are no users dependent on general purpose financial reports. This is an annual report that has been prepared to distribute to its members.

The financial report has been prepared in accordance with Accounting Standards and mandatory professional reporting requirements to the extent described in note 17.

In the Directors' opinion:

(a) The financial statements and notes set out on pages 5 to 31:

- (i) complying with Accounting Standards and other mandatory professional reporting requirements, as detailed above; and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 28 June 2020 and of its performance for the year ended on that date, and

(b) There are reasonable grounds to believe that the Company 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 Directors.

Daren McKenna
Director

Sydney
30·10·2020

Independent auditor's report

To the members of Southern Sun Clinics Pty Ltd

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Southern Sun Clinics Pty Ltd (the Company) and its controlled entities (together the Group) as at 28 June 2020 and its financial performance and its cash flows for the period 1 July 2019 to 28 June 2020 in accordance with Australian Accounting Standards to the extent described in Note 17 of the financial report.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 28 June 2020
- the consolidated statement of comprehensive income for the period 1 July 2019 to 28 June 2020
- the consolidated statement of changes in equity for the period 1 July 2019 to 28 June 2020
- the consolidated statement of cash flows for the period 1 July 2019 to 28 June 2020
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

Emphasis of matter - basis of accounting and restriction on distribution and use

We draw attention to Note 17 in the financial report, which describes the basis of accounting. The financial report has been prepared for internal purposes to assist Southern Sun Clinics Pty Ltd and its members. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Southern Sun Clinics Pty Ltd and its members and should not be distributed to or

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used by parties other than Southern Sun Clinics Pty Ltd and its members. 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 annual report for the period 1 July 2019 to 28 June 2020, 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the directors for the financial report

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards to the extent described in Note 17 of the financial report, and for such internal control as Management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. The directors have determined that the basis of preparation described in Note 17 to the financial report is appropriate to meet the needs of the members.

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

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

N. James.

Nicholas James
Partner

Sydney
30 October 2020