

# LifeHealthcare Group Limited

(ABN 72 166 525 186)

Year ended 30 June 2015

Previous corresponding period 30 June 2014

## Results for announcement to the market

<u>Revenue and Profit</u>	Up or down	Movement		\$'000
Revenue from ordinary activities	Up	13.9%	to	99,313
Profit from ordinary activities, after tax, attributable to security holders	Down	81.8%	to	3,744
Net profit for the period attributable to security holders	Down	72.2%	to	5,426

## Dividends

### Year ended 30 June 2015

Final Dividend	An unfranked dividend of 7.5 cents per security was declared on 26 August 2015.
Record date for determining entitlement to the dividend	4 September 2015
Approximate dividend payment date	25 September 2015
Interim Dividend	A partly franked dividend of 7.5 cents per security was paid on 20 March 2015.

No dividend reinvestment plan was in operation during the year or since the year end.

### Year ended 30 June 2014

Interim Dividend	On 5 December 2013 (as part of the capital restructure associated with the Initial Public Offering), a fully franked dividend totalling \$9.3 million was paid to shareholders of the former parent entity, Lifehealthcare Pty Limited. The
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	dividend represented \$1.0655 per security.
Final Dividend	A fully franked dividend of 7.5 cents per security was paid on 26 September 2014.

<b><u>Net Tangible Asset (NTA) backing</u></b>	<b>30 June 2015</b>	<b>30 June 2014</b>
Net tangible assets per security	\$0.50	\$0.72

<b><u>Annual General Meeting</u></b>	
Date and time	1pm, Wednesday 28 October 2015
Location	LifeHealthcare office Level 8, 15 Talavera Rd, North Ryde, 2113
Annual report will be available on approximately	30 September 2015

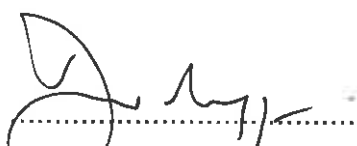
#### **Commentary on the results for the period**

Refer to the attached audited financial statements.

#### **Audited Annual Financial Report**

The audited annual financial report of LifeHealthcare Group Limited for the year ended 30 June 2015 is attached.

Signed:



**David Wiggins**  
Chief Financial Officer and Company Secretary

Date: 26 August 2015

# **LifeHealthcare Group Limited**

**ABN 72 166 525 186**

## **Annual Financial Report**

**For the Year Ended 30 June 2015**

# **LifeHealthcare Group Limited**

ABN 72 166 525 188

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The registered office of the company is:

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

The principal place of business is:

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

## Corporate Governance Statement

30 June 2015

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

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

Copies of LifeHealthcare's Board Committee Charters and key corporate governance policies are available in the Corporate Governance section of the website at [www.lifehealthcare.com.au](http://www.lifehealthcare.com.au).

A copy of the completed ASX Appendix 4G "Key to Disclosures: Corporate Governance Council Principles and Recommendations" is also available on the LifeHealthcare website.

### Principle 1: Lay solid foundations for management and oversight

#### Role of the Board and Management

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

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

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

#### Responsibilities of the Board

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

- Enhancing shareholder value;
- Providing strategic direction for and approving LifeHealthcare's strategies, objective and budgets;
- Monitoring the operation and financial position and performance of LifeHealthcare;
- Identifying the principal risks faced by LifeHealthcare and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- Appointing, overseeing, evaluating the performance of and, where appropriate, removing the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO);
- Ratifying the appointment, and where appropriate, the removal of senior executives;
- Monitoring management's performance and the execution of its growth strategy and seeking to ensure appropriate resources are available;
- Adopting appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards including establishing procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements; and
- Approving and reviewing from time to time, LifeHealthcare's internal compliance procedures, including the Code of Conduct and taking all reasonable steps to ensure that the business of LifeHealthcare is conducted in an open and ethical manner.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board Committee, a Director, an employee or another person, subject to ultimate responsibility of the Directors.

The Company Secretary is accountable to the CEO, and to the Board through the CEO, on all corporate governance matters.

## **Corporate Governance Statement**

**30 June 2015**

A performance assessment of senior executives takes place annually in June, the last occasion being June 2015. The assessment, entitled "Performance Partnering Process", is undertaken with each of the senior executives, by the Chief Operating Officer (COO). The process is facilitated by the Human Resources Manager.

### **Appointment of new Directors**

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

New Directors receive a letter of appointment, setting out key terms and conditions of their appointment.

### **Induction**

All new Directors participate in a formal induction process coordinated by the Company Secretary. This induction process includes briefings on LifeHealthcare's financial, strategic, operational and risk management position, governance framework and key developments within LifeHealthcare, as well as the industry and environment in which it operates.

### **Evaluation of Directors**

A performance evaluation for Directors takes place annually. The first review took place in November 2014, in compliance with the established evaluation process. LifeHealthcare's policy for the evaluation of Directors and Senior Executives is available on LifeHealthcare's website.

## **Principle 2: Structure the Board to add Value**

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

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

### **Composition of the Board**

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

- At any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of LifeHealthcare and Directors with an external or fresh perspective;
- There is a sufficient number of Directors to serve on Board Committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities; and
- The size of the Board is appropriate to facilitate effective discussion and efficient decision making.

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

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

In accordance with the ASX Listing Rules, the Company holds an election of Directors each year.

## Corporate Governance Statement

### 30 June 2015

The independence of Directors and their length of service is summarised below:

Name of Director	Independent?	Length of service
Bill Best (Chairman)	Yes	Between 1 and 2 years
Daren McKennay	No - Chief Executive Officer (to 26 August 2015)	Between 1 and 2 years
John Hickey	Yes	Between 1 and 2 years
Donna Staunton	Yes	Between 1 and 2 years
Matthew Muscio	No - Chief Executive Officer (from 26 August 2015)	Less than 1 year

A majority of current Directors are independent Directors.

#### Board committees

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

**Remuneration and Nominations Committee:** Due to the size of LifeHealthcare and composition of the Board, the Board has decided not to establish a Remuneration and Nominations Committee at this time and the functions that would usually be performed by such a Committee, are performed by the Board.

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

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

#### Independent decision making

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

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

Whether the Director:

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

## Corporate Governance Statement

30 June 2015

### Role of the Chair

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

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

### Access to Information

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

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

### Board Members Skills Matrix

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

Skills and experience	Number of directors
Asia-Pacific business experience	4
Capital raising, mergers and acquisitions	3
Corporate governance and compliance	4
Financial acumen	4
General management and leadership	4
Government relations	2
Human resources management	4
Industry experience (health sector)	3
Marketing	2
Regulatory compliance (within health sector)	2
Strategy and risk management	4
Workplace health and safety	3

## Principle 3: Promote ethical and responsible decision-making

### Code of conduct

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

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

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

A copy of the Code of Conduct is available from LifeHealthcare's website.



## Corporate Governance Statement

30 June 2015

### Diversity policy

LifeHealthcare and its Board consider that diversity includes differences which relate to gender, age, ethnicity and cultural background. It also includes differences in lifestyle, education, physical ability and appearance.

The Board seeks to develop a culture of diversity within LifeHealthcare, whereby a mix of skills and diverse backgrounds are employed at all levels.

LifeHealthcare strives to:

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

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

Gender diversity in LifeHealthcare is evidenced by:

Proportion of:	June 2015		June 2014	
	Number	Percentage	Number	Percentage
Women employees in the whole organisation	81	51%	73	53%
Women in executive positions**	2	20%	2	22%
Women on the Board	1	25%	1	20%

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

In accordance with the Workplace Gender Equality Act 2012, LifeHealthcare lodged its annual compliance report with the Workplace Gender Equality Agency in May 2015. A copy of the report is available on request, from the Company Secretary.

LifeHealthcare is currently developing measurable objectives for achieving gender diversity. LifeHealthcare will include its gender diversity objectives in the 2016 Annual Report.

### Principle 4: Safeguard integrity in financial reporting

#### Audit and Risk Committee

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

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

The names and qualifications of those appointed to the Audit and Risk Committee and their attendance at meetings of the committee are noted under "Principle 7: Recognise and Manage Risk".

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

The Audit and Risk Committee charter is available on the LifeHealthcare website. A table showing the number of Audit and Risk Committee meetings held during the year, the attendance by each member of the committee, together with their qualifications and experience, is shown under "Principle 7: Recognise and Manage risk".

## Corporate Governance Statement

30 June 2015

### External auditor

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

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

### Principle 5: Make timely and balanced disclosure

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

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

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

The half year and full year financial results are announced to the ASX and are available to shareholders via a link on LifeHealthcare's website and the ASX website.

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

### Principle 6: Respect the rights of shareholders

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

LifeHealthcare has a Shareholder Communications Policy which promotes effective communication with shareholders and encourages participation at general meetings. LifeHealthcare is committed to communicating with Shareholders in a timely and accurate manner and makes all ASX announcements available via a link on its website.

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

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

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

### Principle 7: Recognise and manage risk

The Board is responsible for satisfying itself (on an annual basis as a minimum) that management has developed and implemented a sound system of risk management and internal controls. The Audit and Risk Committee undertakes a detailed review of the risk management framework, on behalf of the Board and reports its findings to the Board.

## Corporate Governance Statement

30 June 2015

The Audit and Risk Committee Charter is available on LifeHealthcare's website. The committee met three times during the year. Attendance by committee members was:

Name	Qualifications and experience	Number of meetings held while a Director	Number of meetings attended
John Hickey (Chairman of the Committee)	BBus; 20 years experience in the healthcare sector.	3	3
Bill Best	BComm, LLB, MComm; More than 30 years experience in investment banking and stockbroking.	3	3
Michael Alscher (resigned 25 February 2015)	BComm; More than 20 years experience in the healthcare sector.	3	3
Donna Staunton (appointed 25 February 2015)	BA, LLB; Extensive healthcare and government relations experience.	1	1

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

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

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

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

A summary of LifeHealthcare's risk related policies can be found with other corporate governance policies under the Corporate Governance section of LifeHealthcare's website.

### Principle 8: Remunerate fairly and responsibly

Due to the size of LifeHealthcare and composition of the Board, the Board has decided not to establish a formal Remuneration and Nominations Committee. The functions that would normally be performed by such a Committee, are performed by the Board.

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

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

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

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

## Corporate Governance Statement

30 June 2015

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

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

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

Each Board member who is involved with reviewing executive remuneration:

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

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

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

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

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

## Directors' Report

**30 June 2015**

The Directors present their report, together with the financial statements of the Group, being LifeHealthcare Group Limited (the Group) and its controlled entities, for the financial year ended 30 June 2015.

### General Information

#### Information on Directors

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

**Bill Best**

Qualifications	B Comm, LLB, M Comm
Experience	Independent Non-Executive Director. Former Executive Director at Macquarie Group Limited. Involved in investment banking and stockbroking for more than 30 years.
Interest in shares and options	Ordinary shares - LifeHealthcare Group Limited: 100,000. Options: Nil.
Special responsibilities	Chair of the Board Member of Audit & Risk Committee
Other current directorships in listed entities	Nil
Other directorships in listed entities held in the previous three years	Nil

**Daren McKennay**

Qualifications	Resigned 26 August 2015 B Bus, MBA, CA
Experience	Managing Director and Chief Executive Officer (to 26 August 2015). Founder of LifeHealthcare, with approximately 20 years of healthcare and other commercial experience. Formerly COO of listed radiology provider MIA Group Limited.
Interest in shares and options	Ordinary shares - LifeHealthcare Group Limited: 1,482,650. Options: 158,200.
Special responsibilities	Chief Executive Officer (to 26 August 2015)
Other current directorships in listed entities	Nil
Other directorships in listed entities held in the previous three years	Nil

**Matthew Muscio**

Qualifications	Appointed 26 August 2015 B Bus
Experience	Chief Executive Officer (from 26 August 2015). Chief Operating Officer of LifeHealthcare since 2013. Approximately 17 years of medical device industry experience.
Interest in shares and options	Ordinary shares - LifeHealthcare Group Limited: 2,500. Options: 508,889.
Special responsibilities	Chief Executive Officer (from 26 August 2015)
Other current directorships in listed entities	Nil
Other directorships in listed entities held in the previous three years	Nil

## **Directors' Report**

**30 June 2015**

### **General Information (Continued)**

#### **Information on Directors (Continued)**

##### **John Hickey**

###### **Qualifications**

B Bus

###### **Experience**

Independent Non-Executive Director. Involved in healthcare sector throughout Australasia for more than 18 years. Formerly CFO of Healthscope.

###### **Interest in shares and options**

Ordinary shares - LifeHealthcare Group Limited: 50,000. Options: Nil

###### **Special responsibilities**

Chair of Audit & Risk Committee

###### **Other current directorships in listed entities**

Nil

###### **Other directorships in listed entities held in the previous three years**

Nil

##### **Donna Staunton**

###### **Qualifications**

BA, LLB

###### **Experience**

Independent Non-Executive Director. Managing Director of the Strategic Counsel. A background in law, with more than 20 years of corporate and government experience.

###### **Interest in shares and options**

Nil

###### **Special responsibilities**

Member of Audit & Risk Committee

###### **Other current directorships in listed entities**

Nil

###### **Other directorships in listed entities held in the previous three years**

Nil

##### **Michael Alscher**

###### **Qualifications**

Resigned 25 February 2015

###### **Experience**

B Comm

Non-Executive Director. Founder and Managing Partner of private equity investment firm Crescent Capital Partners. More than 20 years experience within the healthcare sector.

###### **Interest in shares and options**

Ordinary shares - LifeHealthcare Group Limited: 125,000. Options: Nil

###### **Special responsibilities**

Member of Audit & Risk Committee

###### **Other current directorships in listed entities**

Non-Executive Director of Cover-More Group Limited (17/9/2009 to 30/4/2015)

Non-Executive Director of ClearView (22/10/2012 to current)

Non-Executive Director of Metro Performance Glass Limited (24/2/2015 to current)

###### **Other directorships in listed entities held in the previous three years**

Nil

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

## **Directors' Report**

**30 June 2015**

### **General Information (Continued)**

### **Information on Directors (Continued)**

### **Company Secretary**

The following person held the position of Group Secretary at the end of the financial year:

David Wiggins (B Comm, MBA, CA, FGIA) has been the Company Secretary since 2008. Prior to this role, David Wiggins was the General Manager M&A - GEON Group and prior to that, the CFO and Company Secretary of Promentum Limited.

### **Operational and financial review**

The Board presents the 2015 Operating and Financial Review, which has been prepared in order to provide shareholders with a clear and concise overview of the Group's operations, financial position, business strategies and prospects. The review also provides contextual information, including the impact of key events that have occurred during 2015 and material business risks faced by the business so that shareholders can make an informed assessment of the results and prospects of the Group. The review complements the Financial Report and has been prepared in accordance with the recently released guidance set out in RG247.

### **LifeHealthcare's Operations**

#### Principal Activities

LifeHealthcare's core business strategy is to become a leading multichannel medical device company in the Australasian region focussed on creating value for customers by providing a more enhanced procedural offering and delivering quality and life enhancing products for better patient outcomes.

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

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

#### **a) Implantable Devices**

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

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

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

#### **b) Non-Implantable Devices**

Non-Implantable devices are used or consumed during surgical procedures, for example re-usable surgical instruments and suction systems.

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

## **Directors' Report**

**30 June 2015**

### **Operational and financial review (Continued)**

#### **c) Capital Equipment**

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

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

#### Key Developments

Fiscal year 2015 has been a year of achievements for LifeHealthcare across all areas of the business. Key developments include:

- Strong growth in implantable devices achieved through an increase in the number of surgeons using LifeHealthcare's implants and increasing penetration of its products amongst both new and existing surgeons.
- LifeHealthcare partnering to launch 3D printed (additive manufacturing) implant technology in the spine and orthopaedic fields to continue growth through innovation.
- Successful launch of the Affiniti cardiac ultrasound platform for the mid-tier private market and continued success of the EPIQ cardiac ultrasound platform.
- The launch of the TRIOS specialised operating table as a new generation product for the Jackson table.
- The second Mazor Renaissance Robotic System was installed in December 2014.
- During the year a number of strategies were implemented to offset the weaker AUD:USD including price increases in the second quarter, improved trading terms and proactive management of reimbursed products. Full benefit of these initiatives will be reflected beyond the 2015 year.
- Acquisition of M4 Healthcare Pty Limited, a leading provider of Point of Care Ultrasound systems. The acquisition cost was \$9.0 million.
- Subsequent to year end the company received legal advice that has resulted in a revision in the basis upon which the market value of inventory for the purposes of the tax cost base reset has been estimated. The net effect of the revision in the current financial year was an increase in tax expense of \$4.5 million and a reduction in Deferred Tax Asset of \$4.5 million.
- The Board confirmed the intention to pay a final unfranked dividend of 7.5 cents per share in respect of the year ended 30 June 2015. Together with the interim dividend of 7.5 cents per share (paid in March 2015), this dividend represents 74% of NPATA for the year.

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



## Directors' Report

30 June 2015

### Operational and financial review (Continued)

#### FY 2015 Operating Results Summary

\$million	Statutory	Proforma**	Statutory	% change
	FY2015	FY 2014	FY2014	Proforma FY2014
Reported revenue	99.3	87.2	87.2	13.8%
EBITDA	17.4	15.3	10.8	14.0%
Transaction expenses	0.3	0.0	0.0	nm
Depreciation	3.0	2.5	2.5	20.0%
EBITA	14.1	12.8	8.3	10.5%
Amortisation of software costs	0.3	0.3	0.3	0.0%
Amortisation of specifically identifiable intangibles	0.5	0.4	0.4	21.8%
EBIT	13.3	12.1	7.6	10.5%
Net interest	1.6	1.7	1.7	-9.6%
Tax expense/(benefit)	8.0	3.2	(14.6)	151.2%
NPAT	3.7	7.2	20.5	-47.7%
NPATA*	8.8	7.5	24.2	16.7%

\* NPATA is defined as net profit after tax excluding amortisation of specifically identifiable intangibles and transaction expenses. This excludes the one-off income tax expense for FY15 of \$4.5 million arising from the revision of accounting estimates relating to the deferred tax assets.

\*\* Pro forma result for FY2014 excludes IPO offer costs (tax effected) and income tax credit resulting from ACA inventory uplift.

Sales revenue of \$99.3 million (2014 \$87.2 million) was up by 13.8% on the prior year. The medical devices market experienced favourable trading conditions throughout the year, this coupled with a number of product introductions, new customers and channel expansions, resulted in LifeHealthcare increasing its market penetration in key segments of the market. The acquisition of M4 Healthcare Pty Limited completed on 27 May 2015 also contributed a full month of revenue.

Revenue growth of \$12.1 million (13.8%) was also driven by growth in sales of implantable devices as a result of a number of new product introductions and further market penetration as well of growth in sales of capital equipment from the launch of the Affiniti mid-tier cardiac ultrasound platform.

EBITDA of \$17.4 million (2014 \$15.3 million) was up by 14.0% on the prior year. This was in line with revenue growth. Gross margin at 54.4% was above the 2014 year (2014: 53.5%) due to growth in the higher margin implant business and a higher margin capital product mix, as well as the positive benefit of margin management strategies. The business also continued to invest in human resources in existing and new growth market segments ahead of revenue to establish a strong base for fiscal year 2016 growth.

NPATA of \$8.8 million (2014 \$7.5 million) was up by 16.7% on the prior year. This excludes the one-off income tax expense for FY15 of \$4.5 million arising from the revision of accounting estimates relating to the deferred tax asset.

The income tax credit for the 2014 year (Statutory) included \$16.5 million relating to the tax cost base reset and \$1.3 million relating to IPO offer costs.

#### Financial Position and Cash Flows

LifeHealthcare's net debt position of \$23.6 million has increased from the position at 30 June 2014 of \$20.6 million due to the acquisition of M4 Healthcare Pty Limited completed on 27 May 2015 (\$8.2 million net cash outflow).

LifeHealthcare's existing facilities were restructured as part of the acquisition of M4 Healthcare Pty Limited with term facilities increased from \$29 million to \$38 million, including an \$8 million working capital facility available, of which \$29.6 million is drawn, providing headroom of \$8.4 million as at fiscal year end.

Operating cash flow was \$17.3 million, an increase from the prior year of \$6.1 million. This resulted from tighter management of working capital and also positive timing impacts of customer receipts at fiscal year end.

## **Directors' Report**

**30 June 2015**

### **Operational and financial review (Continued)**

#### **Business Strategy and Prospects**

LifeHealthcare's core business strategy is to become a leading multichannel medical device company in the Australasian region focussed on creating value for customers by providing a more enhanced procedural offering and delivering quality and life enhancing products for better patient outcomes.

LifeHealthcare aims to grow the business through the three existing channels of Spine/Neurosurgery, Orthopaedics and Cardiology and develop further channels to become a diversified multichannel company.

LifeHealthcare will leverage its strong existing market position in Spine/Neurosurgery to further penetrate the market through new product introductions and through new customers, as well as creating a leadership position in motion preservation and minimally invasive surgery (MIS).

LifeHealthcare aims to extend its presence in Orthopaedics in revision and complex surgery into the primary hip, primary knee and Sports Medicine, Extremities and Trauma (SET) markets, through innovative customer solutions. LifeHealthcare aims to leverage its position as the leading provider of cardiac ultrasound to enter the Coronary Intervention market, first with Biosensors and its drug eluting stent, subsequently extending into other related products.

In addition to building on the existing channels above, LifeHealthcare is targeting to enter other channels and is targeting market segments with similar characteristics to the existing three channels of Spine/Neurosurgery, Orthopaedics and Cardiology.

LifeHealthcare will continue to look to accelerate its growth strategy through strategic investments that complement this vision. In considering future investments, criteria will be used to evaluate acquisitions along with the ability to implement the LifeHealthcare business model to enhance and grow the business.

#### **Business Risks**

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

The loss of key supply arrangements due to industry consolidation or other factors remains a key business risk. LifeHealthcare actively seeks to mitigate this by developing partnerships with key suppliers through product innovation, developing new supplier relationships across multiple products and maintaining competitive contractual terms with suppliers.

LifeHealthcare derives revenue from a range of key product lines and there is risk around the end of the life cycle of key product lines without a pipeline of new products to supplement lost revenue. LifeHealthcare actively manages the lifecycle of key products and maintains a strong pipeline of new products.

LifeHealthcare's future success depends, to a significant extent, upon the performance and expertise of key staff and the ability to retain key sales representatives. LifeHealthcare seeks to maintain a strong culture and competitive remuneration as part of its retention strategies.

Foreign exchange rate movements also remain a key risk to the business where LifeHealthcare buys the majority of products from US and European suppliers and receives revenue in Australian dollars. This is mitigated through foreign currency hedging. LifeHealthcare's policy is to hedge at least 90% of its next 12 months expected future US\$ exposure on a rolling quarterly basis. In combination with its average inventory holding of ~7 months, at any point in time, this hedging policy means LifeHealthcare has minimal exposure to movements in the USD FX rate for a period of ~18 months and gives LifeHealthcare time to seek an adjustment in margin (through a combination of its selling and buy prices) in the event of sustained movements in exchange rates, however, there can be no certainty that it would be successful in doing so.

Regulatory risks, such as compliance with TGA registration requirements and the PLAC reimbursement regime, continue to be actively managed by LifeHealthcare's Regulatory Affairs team and senior management working closely with supply partners.

## **Directors' Report**

**30 June 2015**

### **Other items**

#### **Significant changes in state of affairs**

The following significant changes in the state of affairs of the Group occurred during the financial year:

On 27 May 2015, a subsidiary company acquired a 100% interest of M4 Healthcare Pty Limited which resulted in LifeHealthcare Group Limited obtaining control of M4 Healthcare Pty Limited. This acquisition is expected to increase the Group's share of this market and reduce costs through economies of scale.

M4 Healthcare Pty Limited is a leading provider of Point of Care Ultrasound systems. The acquisition cost was \$9.0 million.

#### **Dividends paid or recommended**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Final dividend paid	<b>3,187,500</b>	-
Interim dividend paid	<b>3,187,501</b>	<b>9,300,000</b>
<b>Total dividends paid</b>	<b>6,375,001</b>	<b>9,300,000</b>

The final dividend for the year ended 30 June 2014 of 7.5 cents per fully paid ordinary share, totalling \$3,187,500 was paid on 26 September 2014 (2014: \$Nil). The dividend was 100% franked at the corporate tax rate of 30%.

An interim ordinary dividend of 7.5 cents per fully paid ordinary share, totalling \$3,187,501 was paid on 20 March 2015 (2014: \$9,300,000). The dividend was 76% franked at the corporate tax rate of 30%.

The Directors have declared the payment of a final dividend of 7.5 cents (2014: 7.5 cents) per fully paid ordinary share. The dividend will be unfranked.

#### **Events after the reporting date**

On 26 August 2015, Mr Daren McKennay resigned as Chief Executive Officer and Managing Director. On 26 August 2015, Mr Matthew Muscio was appointed as Chief Executive Officer and Managing Director.

On 26 August 2015, the Directors declared the payment of a final dividend of 7.5 cents per fully paid ordinary share. The dividend will be unfranked.

On 26 August 2015, a wholly owned subsidiary Lifehealthcare Distribution Pty Limited, entered into an agreement, subject to satisfaction of certain conditions, to acquire 100% of the shares of Medical Vision Cardiology & Thoracic Pty Limited ("MVA"), a distributor of medical devices in the interventional cardiology market. Completion of the transaction is expected to occur in mid-September 2015.

The purchase price will involve:

- a base payment calculated by reference to MVA's EBITDA for the FY2015 year and the net cash held by MVA at 31 August 2015, which based on final due diligence, is estimated to be approximately \$9 million.
- an earn-out payment based on the financial performance of MVA in the 18 month period ending on 31 December 2016, up to a maximum of \$4 million.

## Directors' Report

30 June 2015

### Other items (Continued)

### Events after the reporting date (Continued)

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

### Future developments and results

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report. The Group is presently focused on consolidating its operations to ensure an effective operating model, and the results for 2016 are expected to be tracking in line with 2015 with a reasonable increase year-on-year.

### Environmental issues

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

### Auditor

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

### Meetings of Directors

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

	Directors' Meetings		Audit & Risk Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Bill Best	10	9	3	3
Daren McKennay	10	10	-	-
John Hickey	10	9	3	3
Donna Staunton	10	10	1	1
Michael Aischer	6	6	3	3

## Directors' Report

**30 June 2015**

### Indemnification and insurance of officers and auditors

During the financial year, LifeHealthcare Group Limited paid a premium of \$106,510 (2014: \$156,991) to insure the Directors and Secretaries of the Company and its Australian and New Zealand based controlled entities, and the General Managers of each of the divisions of the Group.

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

### Options

At the date of this report, the unissued ordinary shares of LifeHealthcare Group Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number of ordinary shares under option
28 June 2013	28 June 2018	\$1.54	690,391
5 December 2013	5 December 2018	\$2.00	155,144
30 June 2014	30 June 2019	\$2.25	107,988
28 October 2014	28 October 2019	\$2.28	158,200
30 June 2015	30 June 2020	\$3.42	439,999
			<u>1,551,722</u>

Option holders do not have any rights to participate in any issues of shares or other interests in the Group or any other entity.

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

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

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

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

No options were converted to shares during the year.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## Directors' Report

**30 June 2015**

### Non-audit services

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

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

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2015:

	2015	2014
	\$	\$
Other assurance services	80,000	50,000
Taxation services	40,000	40,000
Transaction related costs	65,000	277,000
	<u>185,000</u>	<u>367,000</u>

### Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 30 June 2015 has been received and can be found on page 29 of the financial report.

### ASIC class order 98/100 rounding of amounts

The Group is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

## **Directors' Report**

**30 June 2015**

### **Remuneration report (audited)**

#### **Directors and key management personnel disclosed in this report**

Non-Executive and Executive Directors - see Directors' Report above.

#### **Other key management personnel (KMP)**

<b>Name</b>	<b>Position</b>
Matthew Muscio	Chief Executive Officer (from 26 August 2015) (Previously Chief Operating Officer to 26 August 2015)
David Wiggins	Chief Financial Officer and Company Secretary

#### **Remuneration policy**

The remuneration policy of the Group has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of the Group believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between Directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- The remuneration policy has been developed by the Board.
- All KMP receive a base salary (which is based on factors such as length of service, scope of responsibilities and experience), superannuation, fringe benefits and performance incentives.
- Performance incentives are based on predetermined key performance indicators.
- Incentives paid in the form of options or rights are intended to align the interests of the KMP and Group with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The Board reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

KMP receive a superannuation guarantee contribution required by the law, which was 9.5% for the 2015 financial year, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon resignation or retirement, KMP are paid employee benefit entitlements accrued to the date of resignation or retirement. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to KMP is valued at the cost to the Group and expensed.

**Directors' Report****30 June 2015****Remuneration report (audited) (Continued)****Remuneration policy (Continued)**

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting, the current maximum is \$600,000 which was set at the time of the IPO.

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align their interests with shareholders' interests.

Options granted under these arrangements do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share and is valued using the Black-Scholes methodology.

**Relationship between remuneration policy and company performance**

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to Directors and executives to encourage the alignment of personal and shareholder interests. The Group believes this policy has been effective in increasing shareholder wealth during the period subsequent to the IPO.

The following table shows the gross revenue, profits and dividends for FY15 for the Group:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	<b>99,313</b>	87,230
Net Profit	<b>3,744</b>	20,517
Share Price at Year-end (\$)	<b>3.50</b>	2.26
Dividends Paid (\$'000)	<b>6,375</b>	9,300
Dividends Paid (cents)	<b>15.0</b>	106.50



## Directors' Report

30 June 2015

### Remuneration report (audited) (Continued)

#### Performance conditions linked to remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with KMP to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for the Group's expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

#### Employment details of members of key management personnel

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

Each of these packages include the following:

- A fixed component, which may be allocated to cash, benefits or superannuation.
- An amount is also allocated to short-term incentives (STIs) based on KPIs set for the financial year. The KPIs comprise various measurable goals. The percentage allocated to this component varies according to the relevant position. STIs are generally linked to financial and strategic outcomes aligned with shareholder returns. These are agreed with the executive to ensure they are in line with the business targets and goals for the period under review.
- A long term incentive (LTI) component via performance rights is another element considered on an annual basis. The LTI grant is to encourage Company growth along with retention of key executives.

		Performance based remuneration		
		Fixed Base \$'000	At risk - STI %	At risk - LTI %
<b>Directors</b>	<b>Position</b>			
Daren McKennay	Executive Director, Chief Executive Officer (to 26 August 2015)	548	41	5
Matthew Muscio	Executive Director, Chief Executive Officer (from 26 August 2015)	450	45	26
<b>KMP</b>				
Matthew Muscio	Chief Operating Officer (to 26 August 2015)	350	33	25
David Wiggins	Chief Financial Officer	325	38	

## Directors' Report

30 June 2015

### Remuneration report (audited) (Continued)

#### Service Agreements

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

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

	Term	Notice period	Base salary including superannuation	Termination Period*
Daren McKennay (Chief Executive Officer to 26 August 2015)	No fixed term	6 months	\$547,500	6 months
Matthew Muscio (Chief Executive Officer from 26 August 2015)	No fixed term	6 months	\$450,000	6 months
David Wiggins (Chief Financial Officer)	No fixed term	6 months	\$325,000	6 months

\* - If terminated with notice and without cause.

# **Directors' Report** **30 June 2015**

## **Remuneration report (audited) (Continued)**

### **Remuneration details for the year ended 30 June 2015**

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

#### **Table of benefits and payments**

2015	Cash salary/fees	Bonus#	Short term	Other short-term	Sub-total	Post employment	Annual Leave and Long Service Leave	Options and rights	Share based payments	Shares and units	Grand total
	\$	\$	Bonus#	Non monetary	\$	Superannuation	\$	\$			\$
<b>Directors</b>											
Bill Best (full year)	109,840	-	-	-	109,840	10,435	-	-	-	-	120,275
Daren McKennay (CEO - full year)	517,396	225,000	-	-	742,396	30,104	50,328	29,266	-	-	852,094
John Hickey (full year)	64,073	-	-	-	64,073	6,087	-	-	-	-	70,160
Donna Staunton (full year)	54,920	-	-	-	54,920	5,217	-	-	-	-	60,137
Michael Alscher* (1/7/14 - 25/2/15)	-	-	-	-	-	-	-	-	-	-	-
<b>KMP</b>											
Matthew Muscio (full year)	287,854	117,000	-	-	404,854	27,346	2,577	86,787	-	-	523,564
David Wiggins (full year)	268,493	122,500	-	-	390,993	25,507	14,060	-	-	-	430,560
	<b>1,302,576</b>	<b>464,500</b>	-	-	<b>1,767,076</b>	<b>104,696</b>	<b>66,965</b>	<b>118,053</b>	-	-	<b>2,056,790</b>

\* Total director's fees paid to Crescent Capital Partners were \$78,315

# Percentage of remuneration that was performance related is 26%, 22% and 28% for McKennay, Muscio and Wiggins respectively.

# **Directors' Report** **30 June 2015**

## **Remuneration report (audited) (Continued)**

Remuneration details for the year ended 30 June 2015 (Continued)

2014	Cash salary/fees	Bonus#	Short term	Other short-term	Sub-total	Post employment	Annual Leave and Long Service Leave	Share based payments	Grand total
	\$	\$	Bonus#	Non monetary	\$	Superannuation	\$	Options and rights	Shares and units
<b>Directors</b>									
Bill Best (8/1/13 - 30/6/14)	70,833				70,833	6,552			77,385
Daren McKennay (CEO - full year)	509,274	161,538			670,812	25,414	19,489		715,715
John Hickey (8/1/13 - 30/6/14)	41,519				41,519	3,840			45,359
Donna Staunton (8/1/13 - 30/6/14)	35,416				35,416	3,276			38,692
Michael Alscher* (full year)									
David Brown (1/7/13 - 8/1/13)	21,385				21,385				21,385
John Halliday (1/7/13 - 8/1/13)	14,256				14,256				14,256
<b>KMP</b>									
Matthew Muscio	279,359	106,750			386,109	25,841	3,485	88,787	504,617
David Wiggins (full year)	256,293	90,462			346,755	23,707	7,815		378,277
	<b>1,228,335</b>	<b>358,750</b>			<b>1,587,085</b>	<b>88,630</b>	<b>30,789</b>	<b>88,787</b>	<b>1,795,686</b>

\* Total director's fees paid to Crescent Capital Partners were \$138,943

# Percentage of remuneration that was performance related is 23%, 21% and 24% for McKennay, Muscio and Wiggins respectively. Lukin, Martin and Caristo have not been included above. They are considered KMPs for part of the year but were not paid any fees.

**Directors' Report****30 June 2015****Remuneration report (audited) (Continued)****Securities received that are not performance related**

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

**Cash performance-related bonuses**

The terms and conditions relating to bonuses granted as remuneration during the year to KMP during the year are as follows:

Cash bonuses	Bonus \$	% paid / vested in the period %	% forfeited in period %
<b>Directors</b>			
Daren McKennay	225,000	100	-
<b>KMP</b>			
Matthew Muscio	117,000	100	-
David Wiggins	122,500	100	-

Each of the bonuses described in the table above were awarded in accordance with the terms of the scheme and the relevant KPIs.

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

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

## Directors' Report 30 June 2015

### Remuneration report (audited) (Continued)

#### Options and rights granted and vested during the year to KMPs

	Date	Grant details		For the financial year ended 30 June 2015				Overall		
		No.	Value \$	Exercised		Vested No.	Vested %	Unvested %	Lapsed %	
				No.	\$					
<b>KMP</b>										
Matthew Muscio	30 June 2015	90,000	99,855	1	-	1	0	100	0	

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

All options were issued by LifeHealthcare Group Limited and entitle the holder to ordinary shares in LifeHealthcare Group Limited for each option exercised.

There have not been any alterations to the terms or conditions of any share based payment arrangements since grant date.

## Directors' Report

30 June 2015

### Remuneration report (audited) (Continued)

#### Loans to KMPs

Loan balances receivable from KMPs at the end of the year are:

	2015 \$	2014 \$
Daren McKennay	60,000	61,045

This loan is interest free and has no fixed repayment term. It will be repaid in the next 12 months.

#### Key management personnel shareholdings

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

	Balance 1 July 2014	Disposal of shares	Resignation*	Balance at 30 June 2015
<b>30 June 2015</b>				
<b>Directors</b>				
Bill Best	100,000	-	-	100,000
Daren McKennay	1,482,650	-	-	1,482,650
John Hickey	50,000	-	-	50,000
Michael Alscher*	125,000	-	(125,000)	-
<b>Other KMP</b>				
Matthew Muscio	2,500	-	-	2,500
David Wiggins	334,400	(284,400)	-	50,000
	<u>2,094,550</u>	<u>(284,400)</u>	<u>(125,000)</u>	<u>1,685,150</u>

\* - Michael Alscher resigned from his role as a director on 25 February 2015, and therefore the balance held in relation to his position as Key Management Personnel is nil.

## Directors' Report

30 June 2015

### Remuneration report (audited) (Continued)

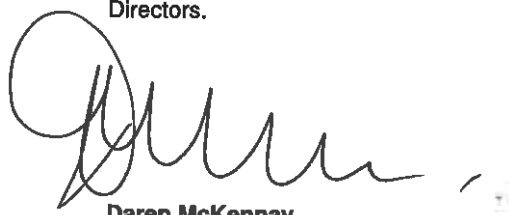
#### Key management personnel shareholdings (Continued)

	Balance 1 July 2013*	Disposal of shares to LHCFPL**	Subscription at IPO	Balance at 30 June 2014
<b>30 June 2014</b>				
<b>Directors</b>				
Bill Best	-	-	100,000	100,000
Daren McKennay	322,827	(322,827)	-	1,482,650
John Hickey	-	-	50,000	50,000
Michael Alscher	-	-	125,000	125,000
<b>Other KMP</b>				
Matthew Muscio	-	-	2,500	2,500
David Wiggins	-	(172,155)	-	334,400
	<u>322,827</u>	<u>(494,982)</u>	<u>277,500</u>	<u>2,094,550</u>

\* Represents shares in Lifehealthcare Pty Limited at 1 July 2013.

\*\* Represents shares in Lifehealthcare Pty Limited sold to LifeHealthcare Finance Limited

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



**Daren McKennay**  
Director

Sydney

Dated 26 August 2015





## **Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of LifeHealthcare Group Limited and Controlled Entities**

As lead auditor for the audit of LifeHealthcare Group Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Shannon Maher  
Partner  
PricewaterhouseCoopers

Sydney  
26 August 2015

**Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2015**

	Note	2015 \$'000	2014 \$'000
Revenue	3	99,313	87,230
Changes in inventories and consumables used		(43,370)	(38,841)
Employee benefits expense		(26,221)	(22,026)
Depreciation and amortisation expense		(3,775)	(3,191)
Travel expenses		(2,417)	(2,260)
Occupancy expenses		(1,535)	(1,519)
Distribution expenses		(2,070)	(1,686)
Marketing and advertising expenses		(1,517)	(1,438)
Telecommunications expense		(276)	(296)
Director fees		(306)	(275)
Motor vehicle expenses		(235)	(228)
Transaction related expenses		(291)	(4,482)
Other expenses		(3,920)	(3,303)
Finance costs	4	(1,559)	(1,726)
Share of loss from interest in joint venture		(38)	(87)
<b>Profit before income tax</b>		<b>11,783</b>	<b>5,872</b>
Income tax (expense)/benefit	5	(8,039)	14,645
<b>Profit for the year</b>		<b>3,744</b>	<b>20,517</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translating foreign operations	20(a)	(15)	188
Changes in the fair value of cash flow hedges	20(c)	2,424	(1,706)
Income tax relating to components of other comprehensive income	5	(727)	512
<b>Other comprehensive income for the year, net of tax</b>		<b>1,682</b>	<b>(1,006)</b>
<b>Total comprehensive income for the year</b>		<b>5,426</b>	<b>19,511</b>
Profit attributable to:			
Members of the parent entity		3,744	20,517
Total comprehensive income attributable to:			
Members of the parent entity		5,426	19,511
<b>Earnings per share</b>			
From continuing operations:			
Basic earnings per share (\$)		0.09	0.53
Diluted earnings per share (\$)		0.09	0.51

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

**Consolidated Balance Sheet**  
**As at 30 June 2015**

	Note	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	6,003	2,805
Trade and other receivables	9	17,132	14,251
Inventories	10	30,454	27,470
Other financial assets	11	2,007	-
<b>TOTAL CURRENT ASSETS</b>		<b>55,596</b>	<b>44,526</b>
<b>NON-CURRENT ASSETS</b>			
Investment in joint ventures	29	388	367
Property, plant and equipment	12	9,582	8,444
Deferred tax assets	5	8,327	17,229
Intangible assets	13	21,572	13,038
<b>TOTAL NON-CURRENT ASSETS</b>		<b>39,869</b>	<b>39,078</b>
<b>TOTAL ASSETS</b>		<b>95,465</b>	<b>83,604</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	18,623	13,947
Borrowings	15	-	2,291
Current tax liabilities		860	81
Short-term provisions	17	1,894	1,161
Other financial liabilities	16	352	745
<b>TOTAL CURRENT LIABILITIES</b>		<b>21,729</b>	<b>18,225</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	15	29,646	20,777
Long-term provisions	17	497	611
Other financial liabilities	16	550	327
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>30,693</b>	<b>21,715</b>
<b>TOTAL LIABILITIES</b>		<b>52,422</b>	<b>39,940</b>
<b>NET ASSETS</b>		<b>43,043</b>	<b>43,664</b>
<b>EQUITY</b>			
Contributed equity	18	26,276	26,173
Reserves	20	1,772	(135)
Retained earnings	19	14,995	17,626
<b>TOTAL EQUITY</b>		<b>43,043</b>	<b>43,664</b>

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

**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2015**

	Contributed equity \$'000	Retained Earnings \$'000	Foreign Currency Translation Reserve \$'000	Share-Based Payments Reserve \$'000	Hedge Reserve \$'000	Total \$'000
<b>Balance at 1 July 2014</b>	26,173	17,626	188	387	(710)	43,664
Profit for the year	-	3,744	-	-	-	3,744
Other comprehensive income for the year	-	-	(15)	-	1,697	1,682
<b>Transactions with owners in their capacity as owners</b>						
Dividends provided for or paid	-	(6,375)	-	-	-	(6,375)
Share based payment transactions	-	-	-	225	-	225
Shares issued during the year	103	-	-	-	-	103
<b>Balance at 30 June 2015</b>	<b>26,276</b>	<b>14,995</b>	<b>173</b>	<b>612</b>	<b>987</b>	<b>43,043</b>
<b>Balance at 1 July 2013</b>	12,205	6,409	-	119	484	19,217
Profit for the year	-	20,517	-	-	-	20,517
Other comprehensive income for the year	-	-	188	-	(1,194)	(1,006)
<b>Transactions with owners in their capacity as owners</b>						
Contribution of equity	13,968	-	-	-	-	13,968
Dividends provided for or paid	-	(9,300)	-	-	-	(9,300)
Share based payment transactions	-	-	-	268	-	268
<b>Balance at 30 June 2014</b>	<b>26,173</b>	<b>17,626</b>	<b>188</b>	<b>387</b>	<b>(710)</b>	<b>43,664</b>

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

**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2015**

	Note	2015 \$'000	2014 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers		110,316	98,491
Payments to suppliers and employees		(92,971)	(87,243)
		17,345	11,248
Interest received		4	-
Interest paid		(1,559)	(1,789)
Income taxes paid		(154)	(2,765)
Transaction costs relating to acquisition of subsidiary		(291)	-
Net cash provided by operating activities	32	15,345	6,694
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments for investment in joint venture		(58)	(271)
Purchase of plant, equipment and intangible assets		(4,203)	(2,280)
Payment for acquisition of subsidiary, net of cash acquired		(8,227)	(494)
Net cash used by investing activities		(12,488)	(3,045)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from IPO		-	76,596
Payments to shareholders		-	(62,674)
Dividends paid to company's shareholders		(6,375)	-
Pre IPO dividend		-	(9,300)
IPO costs		-	(4,878)
Proceeds from borrowings, net of costs		9,000	24,621
Repayment of borrowings		(2,387)	(25,239)
Issue of new shares		103	-
Net cash provided by/(used by) financing activities		341	(874)
Net increase/(decrease) in cash and cash equivalents held		3,198	2,775
Cash and cash equivalents at beginning of year		2,805	30
Cash and cash equivalents at end of financial year	8	6,003	2,805

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

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2015**

This financial report covers the consolidated financial statements and notes of LifeHealthcare Group Limited, its controlled entities and jointly controlled entities (the "Group"). LifeHealthcare Group Limited is a for profit Group domiciled in Australia. The financial statements were authorised for issue by the Board of Directors on 26 August 2015.

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

The separate financial statements and notes of the parent entity, LifeHealthcare Group Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. A parent entity summary is included in Note 35.

#### **1 Summary of Significant Accounting Policies**

##### **(a) Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs.

##### **Rounding of amounts**

The Group is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

##### **Group reorganisation and Initial Public Offering**

LifeHealthcare Group Limited was incorporated on 30 October 2013 and undertook an initial public offering ("IPO") on 5 December 2013.

The proceeds of the IPO were used to acquire Lifehealthcare Pty Limited and its controlled entities, through its newly incorporated subsidiary company, LifeHealthcare Finance Pty Limited.

LifeHealthcare Group Limited determined that the acquisition of Lifehealthcare Pty Limited by its wholly owned subsidiary did not represent a business combination as defined by Australian Accounting Standard AASB 3. This is because the reorganisation is considered to be a combination of entities under common control immediately prior to the IPO, and such common control transactions are outside the scope of AASB 3.

The capital reconstruction and Group reorganisation has been accounted for by reference to the principles of a reverse acquisition by Lifehealthcare Pty Limited of LifeHealthcare Group Limited and LifeHealthcare Finance Pty Limited. As a result the consolidated financial statements of LifeHealthcare Group Limited have been prepared as a continuation of the financial statements of the accounting acquirer, Lifehealthcare Pty Limited.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 1 Summary of Significant Accounting Policies (Continued)

#### (b) Principles of Consolidation

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

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

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

A list of controlled entities is contained in Note 28 to the financial statements.

#### *Subsidiaries*

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

#### *Joint Arrangements*

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

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

#### *Joint ventures*

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

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

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

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

#### (c) Business combinations

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(c) Business combinations (Continued)**

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

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

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

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

#### **(d) Comparative Amounts**

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

#### **(e) Income Tax**

The tax expense recognised in the consolidated statement of comprehensive income relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

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

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

Deferred tax is not provided for the following:

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

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

Deferred tax consequences relating to a non-monetary asset carried at fair value are determined using the assumption that the carrying amount of the asset will be recovered through sale.



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(e) Income Tax (Continued)**

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

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset where there is a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

The Group and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

#### **(f) Revenue and other Income**

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

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

##### **Sale of goods**

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

##### **Interest revenue**

Interest is recognised using the effective interest method.

#### **(g) Cash and cash equivalents**

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(g) Cash and cash equivalents (Continued)**

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

#### **(h) Inventories**

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

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

#### **(i) Financial Instruments**

##### **Financial Assets**

Financial assets are loans and receivables.

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

##### **Loans and receivables**

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

Trade receivables are generally due for settlement within 30-60 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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

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

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

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

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

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2015**

#### **1 Summary of Significant Accounting Policies (Continued)**

##### **(i) Financial instruments (Continued)**

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments. The Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

##### **Financial liabilities**

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

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

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

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

##### *Hedging*

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

##### **Cash flow hedges**

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

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

##### *Impairment of financial assets*

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(l) Financial instruments (Continued)**

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

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

#### **(i) Impairment of non-financial assets**

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

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

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

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

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

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

#### **(k) Property, Plant and Equipment**

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

##### **Depreciation**

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

<b>Fixed asset class</b>	<b>Useful life</b>
Plant and Equipment	3 - 5 years
Furniture, Fixtures and Fittings	3 - 10 years
Leasehold improvements	5 years

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(k) Property, Plant and Equipment (Continued)**

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

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

#### **(l) Intangible Assets**

##### **Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- i) the consideration transferred;
- ii) any non-controlling interest; and
- iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

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

##### **IT development and software**

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

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

##### **Other intangible assets**

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

#### **(m) Leases**

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(n) Borrowing costs**

All borrowing costs are recognised as an expense in the period in which they are incurred, with the exception of borrowing costs on the debt facility. Borrowing costs are capitalised and amortised over the period of the facility, which is the shorter of the term of the facility and the estimated useful life of the qualifying assets.

#### **(o) Trade and other payables**

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

#### **(p) Employee benefits**

##### **(i) Short-term obligations**

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

##### **(ii) Other long-term employee benefit obligations**

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

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

##### **(iii) Share-based payments**

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

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

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 1 Summary of Significant Accounting Policies (Continued)

#### (p) Employee benefits (Continued)

##### (iii) Share-based payments (Continued)

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

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

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

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

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

#### (q) Provisions

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

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

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

#### (r) Borrowings

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

#### (s) Earnings per share

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(s) Earnings per share (Continued)**

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

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

#### **(t) Contributed equity**

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

#### **(u) Operating segments**

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

#### **(v) Goods and Services Tax (GST)**

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

Receivables and payables are stated inclusive of GST.

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

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

#### **(w) Foreign currency transactions and balances**

##### **Functional and presentation currency**

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

##### **Transaction and balances**

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



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(w) Foreign currency transactions and balances (Continued)**

##### **Transaction and balances (Continued)**

At the end of the reporting period:

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

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

##### **Group companies**

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

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

##### **Foreign currency translation**

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

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Summary of Significant Accounting Policies (Continued)**

#### **(x) Adoption of new and revised accounting standards**

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

- *AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*
- *AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*
- *Interpretation 21 Accounting for Levies*
- *AASB 2014-1 Amendments to Australian Accounting Standards*

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

## 1 Summary of Significant Accounting Policies (Continued)

## (y) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by Group
AASB 9 <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	<p>Following the changes approved by the AASB in December 2014, the Group no longer expects any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities.</p> <p>While the Group has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.</p> <p>There will also be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.</p> <p>The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>The Group has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules.</p>	<p>Mandatory for financial years commencing on or after 1 January 2018.</p> <p>Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted.</p> <p>Expected date of adoption by the Group: 1 July 2018.</p>

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## 1 Summary of Significant Accounting Policies (Continued)

### (y) New Accounting Standards and Interpretations (Continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by Group
AASB 15 <i>Revenue from Contracts with Customers</i>	<p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.</p> <p>The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.</p>	<p>Management is currently assessing the impact of the new rules and has identified the following areas that are likely to be affected:</p> <ul style="list-style-type: none"> <li>extended warranties, which will need to be accounted for as separate performance obligations, which will delay the recognition of a portion of the revenue, and</li> <li>the balance sheet presentation of rights of return, which will have to be grossed up in future (separate recognition of the right to recover the goods from the customer and the refund obligation)</li> </ul> <p>At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.</p>	<p>Mandatory for financial years commencing on or after 1 January 2017. Expected date of adoption by the Group: 1 July 2017.</p>

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.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2015**

#### **2 Critical accounting estimates and judgements**

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

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

##### **Impairment of goodwill**

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

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

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

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

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

##### **Accounting for the internal restructure at IPO**

During the prior year, an internal restructure took place in preparation for the listing of the Group on the Australian Stock Exchange. This resulted in a newly incorporated company, LifeHealthcare Group Limited, becoming the legal parent of the Group, conditional on the IPO completing.

The Directors elected to account for the restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of the existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure.

As such, the consolidated financial statements of the new Limited Group have been presented as a continuation of the pre-existing account values of assets and liabilities in the Lifehealthcare Pty Limited financial statements.

The Directors believe that this presentation is consistent with that of other similar IPO transactions in the Australian market.

In adopting this approach the Directors note there is an alternate view that such a restructure conditional on the IPO completing should be accounted for as a business combination that follows the legal structure of LifeHealthcare Group Limited being the acquirer. If this view had been taken, the net assets of the Group would have been uplifted to fair value by approximately \$44m, based on a market capitalisation at IPO of \$85m, with consequential impacts on the consolidated statement of comprehensive income and consolidated balance sheet.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **2 Critical accounting estimates and judgements (Continued)**

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

#### **Deferred tax assets**

The Group has recorded deferred tax assets relating to tax losses and timing differences including an inventory fair value uplift resulting from a tax cost base reset (refer Note 5). These deferred tax assets have been recorded because it is considered probable that they will be utilised by the Group. The calculation of the fair value uplift and the assessment of probability are items of judgement, and the actual outcomes in relation to the utilisation of these deferred tax assets may differ from management's estimates and judgement.

#### **Provision for impairment of inventories**

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

#### **Useful lives of assets**

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2015

#### 3 Revenue and Other Income

##### Revenue from continuing operations

	2015 \$'000	2014 \$'000
Sales revenue		
- Sale of goods	99,309	87,230
Finance income		
- Interest income	4	-
<b>Total Revenue</b>	<b>99,313</b>	<b>87,230</b>

#### 4 Result for the Year

	2015 \$'000	2014 \$'000
<b>Finance Costs</b>		
- Bank loans and overdrafts	1,312	1,367
- Other finance costs	247	359
<b>- Total finance costs</b>	<b>1,559</b>	<b>1,726</b>

The result for the year includes the following specific expenses:

	2015 \$'000	2014 \$'000
<b>Other expenses:</b>		
Defined contribution superannuation expense	1,431	1,155
Impairment of receivables:		
- Bad debts	1	16
Rental expense on operating leases:		
- Minimum lease payments	1,279	1,237

#### 5 Tax

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

	2015 \$'000	2014 \$'000
Current tax	187	1,708
Deferred tax	7,852	(16,353)
<b>Total income tax expense/(benefit)</b>	<b>8,039</b>	<b>(14,645)</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 5 Tax (Continued)

(b) Reconciliation of income tax to accounting profit:

	2015 \$'000	2014 \$'000
Profit before tax	11,783	5,872
Tax rate	30 %	30 %
	<u>3,535</u>	<u>1,762</u>
Add:		
Tax effect of:		
- entertainment	38	31
- sundry items	8	(9)
- option expense	68	80
- Revision of estimate/(ACA inventory uplift) (note c)	4,479	(16,458)
- adjustments for current tax of prior periods	(89)	(51)
Income tax expense/(benefit)	<u>8,039</u>	<u>(14,645)</u>

(c) Revision of estimate

Subsequent to year end the company received legal advice that has resulted in a revision in the basis upon which the market value of inventory for the purposes of the tax cost base reset has been estimated. The net effect of the revision in the current financial year was an increase in tax expense of \$4.479 million and a reduction in Deferred Tax Asset of \$4.479 million.

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

	2015 Tax (Expense) Benefit \$'000	2014 Tax (Expense) Benefit \$'000
Cash flow hedges	<u>(727)</u>	<u>512</u>



## Notes to the Financial Statements

For the Year Ended 30 June 2015

## 5 Tax (Continued)

## (e) Deferred tax asset

	Opening balance \$'000	Charged to profit or loss \$'000	Charged directly to equity \$'000	Closing balance \$'000
<b>Deferred tax assets</b>				
Provisions	1,340	(505)	-	835
Derivatives	(208)	-	512	304
Inventory ACA step up	-	11,310	-	11,310
IPO transaction costs	-	1,049	-	1,049
Other items	-	282	-	282
Tax losses	-	3,591	-	3,591
	1,132	15,727	512	17,371
<b>Offset by deferred tax liability relating to:</b>				
Intangible asset	(256)	114	-	(142)
<b>Balance at 30 June 2014</b>	<b>876</b>	<b>15,841</b>	<b>512</b>	<b>17,229</b>
Provisions	835	476	-	1,311
Derivatives	304	-	(727)	(423)
Inventory ACA step up (refer note 5(c))	11,310	(5,363)	-	5,947
IPO transaction costs	1,049	(200)	-	849
Other items	282	191	-	473
Tax losses	3,591	(2,870)	-	721
	17,371	(7,766)	(727)	8,878
<b>Offset by deferred tax liability relating to:</b>				
Intangible asset	(142)	(409)	-	(551)
<b>Balance at 30 June 2015</b>	<b>17,229</b>	<b>(8,175)</b>	<b>(727)</b>	<b>8,327</b>

The deferred tax asset in relation to tax losses represents a prior year tax loss. This deferred tax asset has been recorded because tax forecasts indicate that it is probable that future taxable profits will be available against which this will be utilised.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 6 Business Combinations

On 27 May 2015, a subsidiary company acquired a 100% interest in M4 Healthcare Pty Limited which resulted in LifeHealthcare Group Limited obtaining control of M4 Healthcare Pty Limited. This acquisition is expected to increase the Group's share of this market and reduce costs through economies of scale.

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

	Fair value \$'000
Purchase consideration:	
- Cash	9,000
- Contingent consideration	516
<b>Total purchase consideration</b>	<b>9,516</b>
Assets or liabilities acquired:	
Cash	773
Trade receivables	1,271
Other receivables and prepayments	29
Inventories	779
Plant and equipment	154
Supply contracts	1,738
Deferred tax asset	138
Trade payables	(811)
Other payables	(642)
Provisions	(27)
Income tax payable	(715)
Deferred tax liability	(521)
<b>Net identifiable assets acquired</b>	<b>2,166</b>
Add: goodwill	7,350
<b>Net assets acquired</b>	<b>9,516</b>

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

Revenue of M4 Healthcare Pty Limited included in the consolidated revenue of the Group since the acquisition date on 27 May 2015 amounted to \$ 651,401 with a profit of \$ 78,638.

Had the results of M4 Healthcare Pty Limited been consolidated from 1 July 2014, revenue of the the Group would have been \$ 106,644,280 and consolidated profit would have been \$ 8,825,978 for the year ended 30 June 2015. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2014.

#### Contingent consideration

In the event that the acquiree's gross profit increases by \$122,449 over the next year, the Group has agreed to pay the selling shareholders an additional \$ 600,000. The Group has included contingent consideration of \$ 516,000 which is the fair value based on probability and a discount rate of 14.0%.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 6 Business Combinations (Continued)

#### Acquisition-related costs

Included within Transaction related expenses in the consolidated statement of comprehensive income are acquisition related costs totalling \$ 236,700. The costs include legal and due diligence fees.

### 7 Operating Segments

#### Segment Information

##### Identification of reportable segments

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

##### *Sale of Medical devices*

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

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

#### (a) Segment performance

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

	<b>Medical devices</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>		
Revenue from external customers	99,309	87,230
<b>Adjusted EBITDA</b>	<b>17,408</b>	<b>15,271</b>
Transaction related expenses	(291)	(4,482)
Depreciation and amortisation expense	(3,775)	(3,191)
Finance costs	(1,559)	(1,726)
Income tax (expense)/benefit	(8,039)	14,645
<b>Total net profit after tax</b>	<b>3,744</b>	<b>20,517</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 7 Operating Segments (Continued)

#### (b) Segment assets

	<b>Medical devices</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Segment assets</b>	<b>95,465</b>	<b>83,604</b>
Included in segment assets are:		
- Additions to non-current assets (other than financial assets and deferred tax assets)	<b>4,203</b>	<b>2,280</b>
Included in segment assets are:		
- Equity accounted associates and joint ventures	<b>388</b>	<b>367</b>
<b>Segment liabilities</b>	<b>52,422</b>	<b>39,940</b>

#### (c) Geographical Information

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

	<b>2015</b>		<b>2014</b>	
	<b>Revenue</b>	<b>Non-current assets</b>	<b>Revenue</b>	<b>Non-current assets</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Australia	<b>94,199</b>	<b>44,175</b>	<b>82,836</b>	<b>38,898</b>
New Zealand	<b>5,110</b>	<b>173</b>	<b>4,394</b>	<b>180</b>

#### (d) Major customers

Revenues of approximately \$22,187,993 (2014: \$21,990,082) are derived from two customers.

### 8 Cash and cash equivalents

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	<b>6,003</b>	<b>2,805</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 9 Trade and other receivables

	2015 \$'000	2014 \$'000
Trade receivables	14,355	12,027
Provision for impairment	(a) -	(19)
	<b>14,355</b>	<b>12,008</b>
Prepayments	979	1,060
Amounts due from joint ventures	36	34
Accrued revenue	1,465	789
Other receivables (Refer note 25(b))	297	360
	<b>17,132</b>	<b>14,251</b>

#### (a) Impairment of receivables

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

	2015 \$'000	2014 \$'000
Balance at beginning of the year	19	3
Additional impairment loss recognised	-	16
Reversal of impairment	(19)	-
<b>Balance at end of the year</b>	<b>-</b>	<b>19</b>

#### (b) Aged analysis

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

	2015 \$'000	2014 \$'000
91-120 days (past due not impaired)	82	106
120+ days (past due not impaired)	12	256
	<b>94</b>	<b>362</b>

**Notes to the Financial Statements****For the Year Ended 30 June 2015****9 Trade and other receivables (Continued)**

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

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

**(c) Classification as trade and other receivables**

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of these amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 - 60 days and therefore all are classified as current. The Group's impairment and other accounting policies for trade and other receivables are outlined in note 1(j).

**(d) Other receivables**

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

**(e) Fair value of trade and other receivables**

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

**10 Inventories**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods	<b>30,454</b>	<b>27,470</b>

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

Inventories recognised as expense during the year ended 30 June 2015 and included in cost of sales amounted to \$43,370,000 (2014: \$38,841,000).

## Notes to the Financial Statements

### For the Year Ended 30 June 2015

#### 11 Other financial assets

##### Financial assets at fair value through profit or loss

	2015 \$'000	2014 \$'000
Forward foreign exchange contracts - cash flow hedges	2,007	-

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

#### 12 Property, plant and equipment

	2015 \$'000	2014 \$'000
Plant and equipment		
At cost	16,990	13,481
Accumulated depreciation	(7,580)	(5,277)
Total plant and equipment	9,410	8,204
Furniture, fixtures and fittings		
At cost	159	224
Accumulated depreciation	(117)	(141)
Total furniture, fixtures and fittings	42	83
Leasehold improvements		
At cost	1,374	1,207
Accumulated depreciation	(1,244)	(1,050)
Total leasehold improvements	130	157
Total plant and equipment	9,582	8,444

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 12 Property, plant and equipment (Continued)

#### Movements in carrying amounts of property, plant and equipment

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

	Plant and Equipment \$'000	Furniture, Fixtures and Fittings \$'000	Leasehold Improvements \$'000	Total \$'000
<b>Consolidated</b>				
<b>Year ended 30 June 2015</b>				
Balance at the beginning of year	8,204	83	157	8,444
Additions	4,034	2	167	4,203
Disposals - written down value	(157)	-	-	(157)
Depreciation expense	(2,671)	(43)	(194)	(2,908)
<b>Balance at the end of the year</b>	<b>9,410</b>	<b>42</b>	<b>130</b>	<b>9,582</b>
	Plant and Equipment \$'000	Furniture, Fixtures and Fittings \$'000	Leasehold improvements \$'000	Total \$'000
<b>Consolidated</b>				
<b>Year ended 30 June 2014</b>				
Balance at the beginning of year	7,953	132	390	8,475
Additions	2,680	1	-	2,681
Disposals - written down value	(237)	-	-	(237)
Depreciation expense	(2,192)	(50)	(233)	(2,475)
<b>Balance at the end of the year</b>	<b>8,204</b>	<b>83</b>	<b>157</b>	<b>8,444</b>



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **13 Intangible Assets**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Computer software		
Cost	<b>3,556</b>	<b>3,360</b>
Accumulated amortisation and impairment	<b>(3,234)</b>	<b>(2,947)</b>
	<b>322</b>	<b>413</b>
Goodwill		
Cost	<b>57,807</b>	<b>50,457</b>
Accumulated impairment	<b>(38,307)</b>	<b>(38,307)</b>
	<b>19,500</b>	<b>12,150</b>
Supply contracts		
Cost	<b>3,638</b>	<b>1,900</b>
Accumulated amortisation	<b>(1,888)</b>	<b>(1,425)</b>
	<b>1,750</b>	<b>475</b>
<b>Total Intangibles</b>	<b>21,572</b>	<b>13,038</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 13 Intangible Assets (Continued)

#### Reconciliation Detailed Table

Consolidated	Computer software \$'000	Goodwill \$'000	Supply contracts \$'000	Total \$'000
<b>Year ended 30 June 2015</b>				
Balance at the beginning of the year	413	12,150	475	13,038
Additions	316	7,350	1,738	9,404
Amortisation	(407)	-	(463)	(870)
<b>Closing value at 30 June 2015</b>	<b>322</b>	<b>19,500</b>	<b>1,750</b>	<b>21,572</b>
Consolidated	Computer software \$'000	Goodwill \$'000	Supply contracts \$'000	Total \$'000
<b>Year ended 30 June 2014</b>				
Balance at the beginning of the year	830	12,015	855	13,700
Additions	7	135	-	142
Disposals	(88)	-	-	(88)
Amortisation	(336)	-	(380)	(716)
<b>Closing value at 30 June 2014</b>	<b>413</b>	<b>12,150</b>	<b>475</b>	<b>13,038</b>

#### Impairment disclosures

For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs):

	2015 \$'000	2014 \$'000
Spine and Neurophysiology	12,150	12,150
Cardio Vascular and Point-of-Care Ultrasound	7,350	-
<b>Total</b>	<b>19,500</b>	<b>12,150</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 13 Intangible Assets (Continued)

#### (a) Impairment tests for goodwill

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

#### (b) Key assumptions

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

- Revenue forecasts for a 5 year forecast period based on management's detailed FY16 budget and FY17-FY20 projections;
- A growth rate to extrapolate cashflows beyond the 5 year period of 3%; and
- A discount rate applied to forecast pre-tax cash flows of 14.0%.

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

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

### 14 Trade and other payables

	2015 \$'000	2014 \$'000
Trade payables	13,018	10,156
Accrued commissions and bonuses	3,200	2,143
Other payables (a)	2,405	1,648
	<u>18,623</u>	<u>13,947</u>

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

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

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

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 15 Borrowings

	2015 \$'000	2014 \$'000
<b>CURRENT</b>		
Secured liabilities:		
Bank loans*		2,291
	2015 \$'000	2014 \$'000
<b>NON-CURRENT</b>		
Secured liabilities:		
Bank loans*	29,646	20,777

\* Includes borrowing costs capitalised.

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

	2015 \$'000	2014 \$'000
<b>First Mortgage:</b>		
Property, plant and equipment	9,582	8,444

(b) Defaults and breaches

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

(c) Fair value of borrowings

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

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 15 Borrowings (Continued)

#### (d) Terms and conditions

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

Lending facilities secured under a Multi-Option Facility Agreement:

- A loan was drawn under the Multi-Option Facility and is repayable at May 2016. This facility has a limit of \$8,000,000 (2014: \$8,000,000) which was drawn to \$509,963 (\$nil relating to a cash advance facility which is classified under current liabilities) (2014: \$3,146,698, of which \$2,386,545\* relates to a cash advance facility which is classified under current liabilities). Components of the facility are bank guarantees, corporate credit cards, cash advance facility and the overdraft.
- A loan in the form of cash advance facility was drawn down under a Cash Advance Facility and is repayable at October 2018. This facility has a limit of \$30,000,000 (2014: \$21,000,000) which was drawn down to \$30,000,000 at 30 June 2015 (2014: \$21,000,000). Current liabilities include \$nil (2014: \$nil) and non-current liabilities include \$29,646,409\* (2014: \$21,000,000).

\* Includes borrowing costs capitalised.

### 16 Other Financial Liabilities

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

	2015 \$'000	2014 \$'000
<b>CURRENT</b>		
Forward foreign exchange contracts - cash flow hedges	-	745
Deferred income	352	-
<b>Total</b>	<b>352</b>	<b>745</b>
	2015 \$'000	2014 \$'000
<b>NON-CURRENT</b>		
Interest rate swap contracts	550	327

#### Interest rate swap contracts - cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 4.35% (2014: 4.1%). It is policy to protect 50% of the non-current portion of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 17 Provisions

	2015 \$'000	2014 \$'000
<b>CURRENT</b>		
Warranties	405	-
Employee benefits	1,489	1,161
	<u>1,894</u>	<u>1,161</u>
	<b>Warranties 2015 \$'000</b>	<b>Warranties 2014 \$'000</b>
<b>Current</b>		
Opening balance	-	-
Additional provisions	405	-
<b>Balance at 30 June</b>	<u>405</u>	<u>-</u>

#### Provision for Warranties

Extended warranty obligations with respect to the sale of Point-of-Care Ultrasound systems, for which extended warranty cover has not been purchased from the manufacturer.

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

	2015 \$'000	2014 \$'000
Current leave obligations expected to be settled after 12 months	<u>206</u>	<u>142</u>

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

	2015 \$'000	2014 \$'000
<b>NON-CURRENT</b>		
Employee benefits - long service leave	206	314
Make good provision	291	297
	<u>497</u>	<u>611</u>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 17 Provisions (Continued)

	Make good provision 2015 \$'000	Make good provision 2014 \$'000
<b>Non-current</b>		
Opening balance	297	302
Provisions reversed	(6)	(5)
<b>Balance at 30 June</b>	<b>291</b>	<b>297</b>

### 18 Contributed equity

	2015 \$'000	2014 \$'000
42,537,651 (2014: 42,500,000) Ordinary shares	26,276	26,173

#### (a) Capital reconstruction

LifeHealthcare Group Limited was incorporated on 30 October 2013 and undertook an initial public offering on 5 December 2013.

The proceeds of the initial public offering were used to acquire Lifehealthcare Pty Limited and its controlled entities, through newly incorporated subsidiary company, LifeHealthcare Finance Pty Limited.

LifeHealthcare Group Limited determined that the acquisition of Lifehealthcare Pty Limited by its wholly owned subsidiary did not represent a business combination as defined by Australian Accounting Standard AASB 3. The appropriate accounting treatment for recognising the new group structure has been determined on the basis that the transaction was a form of capital reconstruction and group reorganisation. The capital reconstruction has been accounted for using the principles of a reverse acquisition by Lifehealthcare Pty Limited of LifeHealthcare Group Limited and LifeHealthcare Finance Pty Limited.

As a result, the consolidated financial statements of LifeHealthcare Group Limited have been prepared as a continuation of the financial statements of the accounting acquirer, Lifehealthcare Pty Limited. The impact of the capital reorganisation on the capital of the consolidated entity is shown below.

# Notes to the Financial Statements

For the Year Ended 30 June 2015

## 18 Contributed equity (Continued)

### (a) Capital reconstruction (Continued)

	Number of shares	\$'000
<b>Share capital</b>		
Share capital as at 30 June 2013 (a)	8,351,656	12,205
Shares issued on exercise of employee options	376,344	-
Less shares prior to reconstruction	(8,728,000)	-
Contributed equity retained to fund transaction costs and pre IPO dividend	6,978,000	13,956
Shares issued as a result of initial public offering - proceeds paid to existing owners	31,319,939	-
Shares issued as share for share exchange on acquisition of Lifehealthcare Pty Limited with existing owners	4,202,061	-
Payment on exercise of employee options	-	12
<b>Balance as at 30 June 2014</b>	<b>42,500,000</b>	<b>26,173</b>
Employee salary sacrifice share plan issue	37,651	103
<b>Balance as at 30 June 2015</b>	<b>42,537,651</b>	<b>26,276</b>

(a) Represented by 8,345,796 ordinary A class shares, 1 C class share and 5,859 D class shares.

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

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

### (b) Options

- (i) For information relating to the LifeHealthcare Group Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 33 Share-based payments.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer to the Remuneration Report.

### (c) Capital Management

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

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

There are no externally imposed capital requirements.



## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 19 Retained Earnings

	2015 \$'000	2014 \$'000
Balance 1 July	17,626	6,409
Net profit for the year	3,744	20,517
Ordinary dividends paid	(6,375)	(9,300)
<b>Balance 30 June</b>	<b>14,995</b>	<b>17,626</b>

### 20 Reserves

	2015 \$'000	2014 \$'000
<b>Foreign currency translation reserve (a)</b>		
Balance 1 July	188	-
Currency translation differences arising during the year	(15)	188
<b>Balance 30 June</b>	<b>173</b>	<b>188</b>
<b>Cash flow hedge reserve (c)</b>		
Balance 1 July	(710)	484
Reclassification adjustments - Transfer to profit or loss (gross)	2,424	(1,706)
Reclassification adjustments - Deferred tax asset/(liability)	(727)	512
<b>Balance 30 June</b>	<b>987</b>	<b>(710)</b>
<b>Share-based payments reserve (b)</b>		
Balance 1 July	387	119
Employee share plan expense	225	268
<b>Balance 30 June</b>	<b>612</b>	<b>387</b>
<b>Total reserves</b>	<b>1,772</b>	<b>(135)</b>

#### (a) Foreign currency translation reserve

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

#### (b) Share-based payments reserve

The share-based payments reserve is used to recognise:

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

#### (c) Cash flow hedge reserve

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

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 21 Earnings per Share

	2015	2014
	\$	\$
<b>(a) Basic earnings per share attributable to ordinary equity holders of the Group</b>	<b>0.09</b>	<b>0.53</b>
<b>(b) Diluted earnings per share attributable to ordinary equity holders of the Group</b>	<b>0.09</b>	<b>0.51</b>
<b>(c) Earnings used in calculating earnings per share</b>	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Basic earnings per share	3,744	20,517
Diluted earnings per share	3,744	20,517
<b>(d) Weighted average number of shares used as denominator</b>	<b>2015</b>	<b>2014</b>
	<b>Number</b>	<b>Number</b>
Number of ordinary shares used as the denominator in calculating basic earnings per share	42,510,728	38,954,301
Number of ordinary shares used as the denominator in calculating diluted earnings per share	43,596,307	39,985,396

The number of ordinary shares outstanding has been adjusted retrospectively back to 1 July 2012 for the capital reconstruction which occurred on 5 December 2013, as described in note 18.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 22 Capital and Leasing Commitments

#### Non-Cancellable Operating Leases

	2015 \$'000	2014 \$'000
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	960	929
- between one year and five years	2,700	522
	<u>3,660</u>	<u>1,451</u>

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

### 23 Financial Risk Management

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

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

#### Financial Instruments used

The Group holds the following financial instruments:

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

#### Objectives, policies and processes

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

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **23 Financial Risk Management (Continued)**

#### **Liquidity risk**

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

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

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

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

## Notes to the Financial Statements For the Year Ended 30 June 2015

### 23 Financial Risk Management (Continued)

#### Liquidity risk (Continued)

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

	Less than 6 months			6 to 12 months			1 to 2 years			2 to 5 years			Total contractual cashflows		Carrying amount (assets)/liabilities	
	2015 \$'000	2014 \$'000	2013 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<b>Non-derivatives</b>																
Trade and other payables	18,623	13,947	-	-	-	-	-	-	-	-	-	-	18,623	13,947	18,623	13,947
Borrowings	-	2,387	-	-	-	-	-	-	-	30,000	21,000	-	30,000	26,764	30,000	23,387
Deferred service revenue	59	-	59	59	-	-	117	-	-	117	-	-	-	-	352	-
	18,682	16,334	59	59	-	-	117	-	-	30,117	21,000	-	48,623	40,711	48,975	37,334
<b>Derivatives</b>																
Net settled (forward exchange contracts - cash flow hedges)	(1,588)	276	(419)	469	-	-	-	-	-	-	-	-	-	745	(2,007)	745
Net settled (interest rate swaps)	-	327	-	-	-	-	-	-	-	550	-	-	550	327	550	327
	(1,588)	603	(419)	469	-	-	-	-	-	550	-	-	550	1,072	(1,457)	1,072
<b>Total</b>	17,094	16,937	(360)	469	117	-	117	-	-	30,667	21,000	-	49,173	41,783	47,518	38,406

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 23 Financial Risk Management (Continued)

#### Market risk

##### (i) Foreign currency sensitivity

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

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

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

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

	USD	NZD	Euro
	\$'000	\$'000	\$'000
<b>2015</b>			
Trade and other receivables	-	2,086	-
Trade and other payables	4,244	873	233
Forward exchange contracts - buy foreign currency	25,781	-	-
<b>2014</b>			
Trade and other receivables	-	1,012	-
Trade and other payables	3,934	658	472
Forward exchange contracts - buy foreign currency	19,427	-	-

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the AUD/USD exchange rate, AUD/NZD exchange rate and AUD/Euro exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

It reflects a +/- 10% change of the Australian Dollar to each of the USD, NZD and Euro foreign currencies exchange rate for the year ended 30 June 2015 (30 June 2014: 10%). These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

The sensitivity analysis is based on the foreign currency financial instruments held at the reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 23 Financial Risk Management (Continued)

If the Australian Dollar had strengthened and weakened against the USD, NZD and Euro by 10% (30 June 2014: 10%) respectively then this would have had the following impact:

	2015		2014	
	+10%	-10%	+10%	-10%
<b>USD</b>				
Net results (\$'000)	390	(477)	361	(441)
Equity (\$'000)	1,658	(2,026)	1,252	(1,530)
<b>NZD</b>				
Net results (\$'000)	(110)	135	(32)	39
Equity (\$'000)	-	-	18	(18)
<b>Euro</b>				
Net results (\$'000)	21	(26)	45	(55)
Equity (\$'000)	-	-	-	-

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

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

	2015	2014
	\$'000	\$'000
Net foreign exchange gain/(loss) included in other income/expense	79	30

#### (ii) Cash flow interest rate sensitivity

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

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

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2014: +1%/-1%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 23 Financial Risk Management (Continued)

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

			2015		2014	
	2015 Balance \$'000	2014 Balance \$'000	+1.00% \$'000	-1.00% \$'000	+1.00% \$'000	-1.00% \$'000
Derivatives	(550)	(327)				
Net results			150	(150)	105	(105)
Equity			-	-	-	-
Borrowings	(30,000)	(23,387)				
Net results			(300)	300	(234)	234
Equity			-	-	-	-

#### (iii) Fair value interest rate sensitivity

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

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contracts	Weighted average interest rate		Balance		% of total loans	
	2015	2014	2015	2014	2015	2014
	%	%	\$'000	\$'000	%	%
Bank overdraft and bank loan	4.35	4.10	(30,000)	(23,387)	67	69
Interest rate swap (notional and principal amount)	3.66	3.87	(15,000)	(10,500)	33	31



**Notes to the Financial Statements****For the Year Ended 30 June 2015****23 Financial Risk Management (Continued)****Credit risk**

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

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

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

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

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

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

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

**(b) Financing arrangements**

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Expiring within one year (bank overdraft and facility)	<b>7,490</b>	<b>4,853</b>

The bank overdraft facilities may be drawn at any time and are repayable in May 2016, or such later time as may be mutually agreed by the Group and the bank. The unsecured cash advance facility may be drawn at any time and is subject to annual review.

## Notes to the Financial Statements

### For the Year Ended 30 June 2015

#### 24 Dividends

##### (a) Ordinary shares

	2015 \$'000	2014 \$'000
Interim dividend for the year ended 30 June 2015 of 7.5 cents (2014: \$1.065 pre IPO) per fully paid share	3,188	9,300
Final dividend for the year ended 30 June 2014 of 7.5 cents per fully paid share	3,187	-
	<u>6,375</u>	<u>9,300</u>

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

In addition to the above, the directors have declared the payment of an unfranked final dividend of 7.5 cents per fully paid ordinary share (post IPO).

	Cents per share	Total amount	Expected date of payment
Final dividend	7.50	\$ 3,190,324	25 September 2015
Franking account			
		2015 \$'000	2014 \$'000
The franking credits available for subsequent financial years at a tax rate of 30% (2014: 30%)		-	2,410

#### 25 Related Parties

##### Key management personnel

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

	2015 \$	2014 \$
Short-term employee benefits	1,767,076	1,587,480
Long-term benefits	66,965	30,789
Post-employment benefits	104,696	88,630
Share-based payments	118,053	88,787
	<u>2,056,790</u>	<u>1,795,686</u>

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2015.

No termination payments were made in 2015 or 2014.

**Notes to the Financial Statements****For the Year Ended 30 June 2015****25 Related Parties (Continued)****Key management personnel options and rights holdings**

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

**(a) The Group's related parties are as follows:****(i) Entities exercising control over the Group:**

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

**(ii) Key Management Personnel**

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

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

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

**(b) Transactions with related parties**

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

Included in other current receivables are the following loans to related parties:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Beginning of the year	<b>61,045</b>	61,045
Loans repaid	<b>(1,045)</b>	-
<b>End of year</b>	<b>60,000</b>	<b>61,045</b>

Temporary loans advanced and repaid during the year are interest free.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 26 Remuneration of Auditors

	2015	2014
	\$	\$
Remuneration of the auditor of the parent entity, PricewaterhouseCoopers Australia, for:		
<b>Audit and other assurance services</b>		
Audit and review of financial statements	218,000	155,000
Other assurance services	80,000	50,000
	<b>298,000</b>	<b>205,000</b>
Taxation services	40,000	40,000
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>338,000</b>	<b>245,000</b>
<b>Other related entities of PricewaterhouseCoopers Australia</b>		
<b>Audit and assurance services</b>		
Audit and review of financial statements	-	43,000
<b>Other services</b>		
Transaction related costs	65,000	277,000
<b>Total remuneration of other related entities of PricewaterhouseCoopers Australia</b>	<b>65,000</b>	<b>320,000</b>

### 27 Deed of Cross-Guarantee

The subsidiaries listed below are parties to a deed of cross guarantee under which each company guarantees the debts of the others. Under ASIC class order 98/1418 there is no requirement for these subsidiaries to prepare or lodge a financial report and Directors' report.

The subsidiaries subject to the deed are:

- LifeHealthcare Finance Pty Limited
- Lifehealthcare Pty Limited
- Lifehealthcare Distribution Pty Limited
- Lifefinance Pty Limited
- Taylor Bryant Pty Limited
- Coefficient Technologies Pty Limited
- Surgical Access Pty Limited
- Central Neurophysiology Supplies Pty Limited
- Austspine Pty Limited

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **27 Deed of Cross-Guarantee (Continued)**

The consolidated statement of comprehensive income and consolidated balance sheet, comprising the closed group, after eliminating all transactions between parties to the deed of cross guarantee are shown below. The deed of cross guarantee was executed on 18 June 2014.

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated Statement of Comprehensive Income</b>		
Revenue	<b>93,547</b>	82,836
Cost of Sales	<b>(41,897)</b>	(36,236)
<b>Gross Profit</b>	<b>51,650</b>	46,600
Operating expense	<b>(39,128)</b>	(39,523)
Finance costs	<b>(1,559)</b>	(1,726)
<b>Profit before income tax</b>	<b>10,963</b>	5,351
Income tax (expense)/benefit	<b>(7,806)</b>	14,781
<b>Profit after income tax</b>	<b>3,157</b>	20,132
<b>Other comprehensive income</b>		
Changes in the fair value of cash flow hedges	<b>1,697</b>	(1,194)
Income tax relating to components of other comprehensive income	<b>(509)</b>	362
<b>Profit attributable to members of the closed group</b>	<b>4,345</b>	19,300

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 27 Deed of Cross-Guarantee (Continued)

	2015 \$'000	2014 \$'000
<b>Consolidated Balance Sheet</b>		
<b>Current Assets</b>		
Cash and cash equivalents	4,396	2,794
Trade and other receivables	15,137	13,932
Other financial assets	2,007	-
Inventories	29,111	26,623
<b>Total Current Assets</b>	<b>50,651</b>	<b>43,349</b>
<b>Non-Current Assets</b>		
Property, plant and equipment	9,278	8,261
Intangible Assets	22,523	13,038
Deferred tax assets	8,168	17,233
Other receivables	388	367
<b>Total Non-Current Assets</b>	<b>40,357</b>	<b>38,899</b>
<b>Total Assets</b>	<b>91,008</b>	<b>82,248</b>
<b>Current Liabilities</b>		
Trade and other payables	16,366	13,091
Borrowings	-	2,291
Provisions	1,265	1,131
Other financial liabilities	-	745
<b>Total Current Liabilities</b>	<b>17,631</b>	<b>17,258</b>
<b>Non-Current Liabilities</b>		
Borrowings	29,646	20,777
Other financial liabilities	550	327
Provisions	627	582
<b>Total Non-Current Liabilities</b>	<b>30,823</b>	<b>21,686</b>
<b>Total Liabilities</b>	<b>48,454</b>	<b>38,944</b>
<b>Net Assets</b>	<b>42,554</b>	<b>43,304</b>
<b>Equity</b>		
Issued Capital	26,275	26,172
Reserves	1,788	(110)
Retained earnings	14,491	17,242
<b>Total Equity</b>	<b>42,554</b>	<b>43,304</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 28 Interests in Subsidiaries

#### (a) Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup> 2015	Percentage Owned (%) <sup>*</sup> 2014
<b>Subsidiaries:</b>			
LifeHealthcare Finance Pty Limited	Australia	100	100
Lifehealthcare Pty Limited	Australia	100	100
Lifehealthcare Distribution Pty Limited	Australia	100	100
Lifehealthcare Limited	New Zealand	100	100
Lifehealthcare Services Pty Limited	Australia	100	100
Lifefinance Pty Limited	Australia	100	100
Taylor Bryant Pty Limited	Australia	100	100
Advanced ORT Pty Limited**	Australia	-	100
Coefficient Technologies Pty Limited	Australia	100	100
Coefficient Systems Pty Limited	Australia	100	100
Lifehealthcare (Cardiovascular) Pty Limited**	Australia	-	100
CWL Medical Enterprises Pty Limited**	Australia	-	100
Incision Medical Pty Limited**	Australia	-	100
Surgical Access Pty Limited	Australia	100	100
Central Neurophysiology Supplies Pty Limited	Australia	100	100
Austspine Pty Limited	Australia	100	100
ACN 153 093 719 Pty Limited**	Australia	-	100
M4 Healthcare Pty Limited	Australia	100	-

<sup>\*</sup>The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

<sup>\*\*</sup> Dormant entity which has been deregistered.

### 29 Interests in Joint Arrangements

	Type of joint arrangement	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup> 2015	Percentage Owned (%) <sup>*</sup> 2014
<b>Joint arrangements:</b>				
Electrocore (Aust) Pty Limited	Joint Venture	Australia	50	50

<sup>\*</sup> The percentage of ownership interest held is equivalent to the percentage voting rights for all joint arrangements.

#### Electrocore (Aust) Pty Limited

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

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 29 Interests in Joint Arrangements (Continued)

#### Joint Ventures

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

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

The risks associated with the investment in the joint venture include whether the business will be able generate future cash flows to fund its operations and the extent to which further contributions of capital will be required by the Group. The ability of the Group to recoup the value of its investment in the joint venture will be impacted by the commercial success of the Electrocore products.

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

Name of Joint Venture	Electrocore 2015 \$'000	Electrocore 2014 \$'000
	Equity method	Equity method
<b>Measurement basis</b>		
<b>Summarised consolidated balance sheet</b>		
Cash and cash equivalents	11	7
Other current assets	24	40
Non-current assets	761	773
Current financial liabilities	(10)	(13)
Other current liabilities	(91)	(32)
<b>Net assets</b>	<b>695</b>	<b>775</b>
<b>Summarised consolidated statement of comprehensive Income</b>		
<b>Revenue</b>	<b>4</b>	<b>5</b>
Depreciation and amortisation	(12)	(9)
<b>Profit/(loss) from continuing operations</b>	<b>(81)</b>	<b>(205)</b>



## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 29 Interests in Joint Arrangements (Continued)

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

	2015 \$'000	2014 \$'000
<b>Electrocore</b>		
Group's share of 50% of net assets	348	388
Contributions yet to be paid	40	(21)
Carrying amount	<u>388</u>	<u>367</u>

There are no other joint ventures held by the Group.

### 30 Fair Value Measurement

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

- Financial assets and liabilities - Derivatives for hedging
- Deferred consideration for business combination

#### Fair value hierarchy

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

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2015</b>				
<b>Recurring fair value measurements</b>				
Derivatives for hedging (assets)	-	2,007	-	2,007
Contingent consideration	-	-	516	516
	<u>-</u>	<u>2,007</u>	<u>516</u>	<u>2,523</u>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 30 Fair Value Measurement (Continued)

Fair value hierarchy (Continued)				
	Level 1	Level 2	Level 3	Total
30 June 2014	\$'000	\$'000	\$'000	\$'000
<b>Recurring fair value measurements</b>				
Derivatives for hedging (assets and liabilities)	-	745	-	745
Contingent consideration	-	-	35	35
	-	745	35	780

#### Transfers between levels of the hierarchy

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

#### Fair value measurements

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

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

### 31 Contingencies

#### Contingent Liabilities

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

##### (i) Guarantees

The Group has a bank guarantee at 30 June 2015 for the performance of certain office lease commitments to a maximum of \$468,510 (2014: \$711,505). This may be called upon by the bank on the next review of the facility agreement which is in May 2016.

##### (ii) Investment in Electrocore (Aust) Pty Limited

On 12 June 2012, the Group agreed to contribute up to \$2,000,000 within eighteen months, to Electrocore (Aust) Pty Limited, a joint venture with Electrocore LLC.

At 30 June 2015, the Group has contributed cash of \$749,846 (2014: \$691,821).

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 32 Cash Flow Information

#### Reconciliation of result for the year to cashflows from operating activities

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

	2015 \$'000	2014 \$'000
Profit for the year	3,744	20,517
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	3,775	3,191
- share options expensed	225	268
IPO costs included as financing cashflow	-	4,878
Share of loss of joint venture	38	87
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase) in trade and other receivables	(1,676)	(2,442)
- (increase)/decrease in prepayments	133	(578)
- increase in inventories	(2,205)	(2,956)
- (increase)/decrease in deferred tax assets	7,744	(15,841)
- increase in trade and other payables	3,355	943
- increase/(decrease) in income taxes payable	64	(1,579)
- increase in provisions	148	206
Cashflow from operations	15,345	6,694

### 33 Share-based Payments

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

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

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

## Notes to the Financial Statements For the Year Ended 30 June 2015

### 33 Share-based Payments (Continued) A summary of the Group options issued is as follows:

Grant Date	Expiry Date	Exercise price \$	Start of the year	Granted/ (forfeited) during the year		Exercised during the year		Converted from/(to) LHCGL*		Balance at the end of the year		Vested and exercisable at the end of the year	
				Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
2015													
28 June 2013	28 June 2018	1.54	690,391	-	-	-	-	-	-	690,391	-	-	-
5 December 2013	5 December 2018	2.00	232,716	(77,572)	-	-	-	-	-	155,144	-	-	-
30 June 2014	30 June 2019	2.25	107,988	-	-	-	-	-	-	107,988	-	-	-
28 October 2014	28 October 2019	2.28	-	158,200	-	-	-	-	-	158,200	-	-	-
30 June 2015	30 June 2020	3.42	-	439,999	-	-	-	-	-	439,999	-	-	-
			1,031,095	520,627	-	-	-	-	-	1,551,722	-	-	-
2014													
5 February 2009	5 February 2014	0.20	172,155	-	-	(172,155)	-	-	-	-	-	-	-
22 December 2009	22 December 2014	3.04	104,190	-	-	(104,190)	-	-	-	-	-	-	-
27 April 2010	27 April 2015	3.50	35,000	-	-	-	(35,000)	-	-	-	-	-	-
30 June 2010	30 June 2015	3.50	15,000	-	-	-	(15,000)	-	-	-	-	-	-
30 June 2011	30 June 2016	6.80	50,000	-	-	-	(50,000)	-	-	-	-	-	-
28 June 2013	28 June 2018	7.05*	178,000	-	-	-	-	(178,000)	-	-	-	-	-
28 June 2013	28 June 2018	1.54	-	-	-	-	-	690,391	-	690,391	-	-	-
5 December 2013	5 December 2018	2.00	-	232,716	-	-	-	-	-	232,716	-	-	-
30 June 2014	30 June 2019	2.25	-	107,988	-	-	-	-	-	107,988	-	-	-
			554,345	340,704	(376,345)	512,391	-	-	-	1,031,095	-	-	-

\* - 178,000 employee options held in Lifehealthcare Pty Limited were converted to 690,391 options in LifeHealthcare Group Limited on IPO. There was no change in fair value of these options as a result of the modification, and all other terms of these options remained unchanged.

## Notes to the Financial Statements

### For the Year Ended 30 June 2015

#### 33 Share-based Payments (Continued)

As at the date of exercise, the weighted average share price of options exercised during the year was \$Nil (2014: \$2.06).

The weighted average remaining contractual life of options outstanding at year end was 3.82 years (2014: 4.48). The weighted average exercise price of outstanding options at the end of the reporting period was \$2.25.

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

The weighted average fair value of the options granted during the year was \$ 1.11 (2014: \$ 0.70). These values were calculated by using a Black-Scholes option pricing model applying the following inputs:

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

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

The share price at 30 June 2015 was \$3.50 (2014: \$2.26).

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

An option will vest and become exercisable to the extent that the relevant performance conditions specified at the time of the grant are satisfied. The Board has discretion in relation to those performance conditions. The specific performance conditions attached to the grants of options current at 30 June 2015 are summarised below:

100% of options are subject to an earnings per share hurdle which is tested as follows:

Earnings per share performance	% that vests
Below 7.0% compound annual growth rate (CAGR)	Nil
7.0% CAGR	50%
Above 7.0% to 11.0% CAGR	Pro-rated vesting on a straight line basis between 50% and 100%
At, or above, 11.0% CAGR	100%

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **33 Share-based Payments (Continued)**

The options are tested against the performance conditions at the end of year three and, if there was no vesting at year three, then at the end of year four. If the performance conditions are not met, the options lapse.

The Option Plan contains provisions relating to the treatment of options in the event of a participant ceasing employment with the Group.

#### **Expenses arising from share-based payment transactions**

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense in relation to options issued under the employee option plan were \$225,009 (2014: \$268,060).

### **34 Events Occurring After the Reporting Date**

On 26 August 2015, Mr Daren McKennay resigned as Chief Executive Officer and Managing Director. On 26 August 2015, Mr Matthew Muscio was appointed as Chief Executive Officer and Managing Director.

On 26 August 2015, the Directors declared the payment of a final dividend of 7.5 cents per fully paid ordinary share. The dividend will be unfranked.

On 26 August 2015, a wholly owned subsidiary Lifehealthcare Distribution Pty Limited, entered into an agreement, subject to satisfaction of certain conditions, to acquire 100% of the shares of Medical Vision Cardiology & Thoracic Pty Limited ("MVA"), a distributor of medical devices in the interventional cardiology market. Completion of the transaction is expected to occur in mid-September 2015.

The purchase price will involve:

- a base payment calculated by reference to MVA's EBITDA for the FY2015 year and the net cash held by MVA at 31 August 2015, which based on final due diligence, is estimated to be approximately \$9 million.
- an earn-out payment based on the financial performance of MVA in the 18 month period ending on 31 December 2016, up to a maximum of \$4 million.

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

**Notes to the Financial Statements****For the Year Ended 30 June 2015****35 Parent entity financial information**

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

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

	2015 \$'000	2014 \$'000
<b>Consolidated Balance Sheet</b>		
<b>Assets</b>		
Current assets	-	-
Non-current assets	85,104	85,000
<b>Total Assets</b>	<b>85,104</b>	<b>85,000</b>
<b>Equity</b>		
Contributed equity	85,104	85,000
<b>Profit or loss for the year</b>		

**Contingent liabilities**

The parent entity did not have any contingent liabilities as at 30 June 2015 (2014: nil).

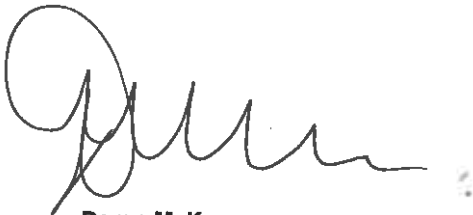
## **Directors' Declaration**

In the Directors' opinion:

1. the financial statements and notes set out on pages 30 - 91 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements and
  - b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date, and
2. the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*, and
3. 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.

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

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



**Daren McKennay**  
Director

Dated 26 August 2015  
Sydney





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

### ***Report on the financial report***

We have audited the accompanying financial report of LifeHealthcare Group Limited (the company), which comprises the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for LifeHealthcare Group Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Account Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

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



### *Auditor's opinion*

In our opinion:

- (a) the financial report of LifeHealthcare Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards including the Australian Accounting Interpretations and the *Corporations Regulations 2001*
- (b) The financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 18 to 27 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of LifeHealthcare Group Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

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

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'S.T.M. Maher'.

Shannon Maher  
Partner

Sydney  
26 August 2015