

ASX Release

23 August 2016

## LifeHealthcare Group Limited Appendix 4E

### ASX Listing Rule 4.3A Preliminary Financial Report for Year Ended 30 June 2016

#### Results for Announcement to the Market

	30 June 2016 \$m	30 June 2015 \$m	Movement \$m	Movement %
Revenue	114.8	99.3	15.5	15.6
Profit after income tax expense	7.5	3.7	3.8	102.2
Net profit attributable to security holders	5.3	5.4	(0.1)	(1.9)

#### Dividend Distributions

	30 June 2016 cents	30 June 2015 cents
Final dividend distribution (100% unfranked)	7.5	7.5
Interim dividend distribution (100% unfranked)	5.0	7.5

- Total dividend distributions by LifeHealthcare Group Limited for the year ended 30 June 2016 were 12.5 cents per security (2015: 15.0 cents).
- Interim dividend distribution record date of 7 March 2016 and was paid on 19 March 2016.
- Final dividend distribution declared on 23 August 2016 with record date of 2 September 2016 and approximate payment date of 23 September 2016.
- No dividend reinvestment plan was in operation during the year or since the year end.

#### > Not your typical multinational

Net Tangible Asset Backing

	30 June 2016 cents	30 June 2015 cents
Net tangible assets per security	35	50

Audited Annual Financial Report

The audited annual financial report of LifeHealthcare Group Limited for the year ended 30 June 2016 is attached and the approximate date the annual report will be available is 26<sup>th</sup> September 2016.

Annual General Meeting

The Annual General Meeting of LifeHealthcare Group Limited will be held at 1 pm AEST on Tuesday 25<sup>th</sup> October 2016 at LifeHealthcare Group Limited's head office, Level 8 15 Talavera Road, North Ryde, NSW.

Signed:



Dean Taylor  
CFO & Company Secretary

For further information contact:

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# **LifeHealthcare Group Limited**

ABN 72 166 525 186

## **Annual Financial Report**

For the Year Ended 30 June 2016

# LifeHealthcare Group Limited

ABN 72 166 525 186

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For the Year Ended 30 June 2016

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The registered office of the company is:

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

The principal place of business is:

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

## **Directors' Report**

**30 June 2016**

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 2016.

### **General information**

#### **Information on Directors**

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

##### **Bill Best**

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

##### **Matthew Muscio**

Qualifications	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: 28,100. Options: 821,595.
Special responsibilities	Chief Executive Officer (from 26 August 2015) Member of the Audit & Risk Committee Member of the Remuneration Committee
Other current directorships in listed entities	Nil
Other directorships in listed entities held in the previous three years	Nil

**Directors' Report****30 June 2016****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 20 years. Formerly CFO of Healthscope Ltd.
Interest in shares and options	Ordinary shares - LifeHealthcare Group Limited: 82,685 Options: Nil
Special responsibilities	Chair of Audit & Risk Committee
Other current directorships in listed entities	Nil
Other directorships in listed entities held in the previous three years	Nil

**Donna Staunton**

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

**Heith Mackay-Cruise**

	Appointed 25 November 2015
Qualifications	B Ec
Experience	Independent Non-Executive Director. Former CEO of media and education businesses with a current non-executive director portfolio of health, technology and education businesses.
Interest in shares and options	Ordinary shares - LifeHealthcare Group Limited: 13,000. Options: Nil.
Special responsibilities	Member of Audit & Risk Committee
Other current directorships in listed entities	One
Other directorships in listed entities held in the previous three years	Nil

## **Directors' Report**

**30 June 2016**

### **General information (Continued)**

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

<b>Daren McKennay</b>	Resigned 26 August 2015
Qualifications	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: Nil. Options: Nil.
Special responsibilities	Chief Executive Officer (resigned 26 August 2015)
Other current directorships in listed entities	Nil
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.

#### **Company Secretary**

Dean Taylor was appointed the Company Secretary on 28th October 2015. Dean is a Chartered Accountant and Chartered Secretary with over 30 years' experience in importing and distribution business covering manufacturing, wholesale and retail. Prior to LifeHealthcare he has held senior CFO and Company Secretary positions in both private and public (unlisted) entities.

David Wiggins was the Company Secretary from the beginning of the financial year until his resignation on 28th October 2015.

#### **Operational and financial review**

The Board presents the 2016 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 2016 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 guidance set out in RG247.

## **Directors' Report**

**30 June 2016**

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

#### **Principal Activities**

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

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

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

a) **Implantable Devices**

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

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

Due to the complex nature of implantable devices, a high degree of clinical support is required to ensure optimal application of the device including at times 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 reusable surgical instruments and suction systems and do not remain within the body of the patient on discharge.

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

c) **Capital Equipment**

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

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

#### **Key Developments**

Key developments in fiscal year 2016 include:

- **Launch of Everest XT:** Co-developed with a key supply partner (K2M) and with four leading Australian surgeons on the design team, Everest XT is a next generation minimally invasive spine system enabling progressive percutaneous techniques;
- **Advances in 3D printed implants:** With an expansion of the 3D printed implant portfolio, LifeHealthcare leads the market in 3D printed interbody spine devices and has assisted Australian surgeons to perform over 15 patient specific custom procedures for limb salvage;
- **Expansion of new active surgeons:** With 17% growth in new active surgeons, LifeHealthcare's implant divisions continue to lay a foundation for growth with a focus on developing young clinicians through professional education and new product introductions;



## Directors' Report

30 June 2016

### Operational and financial review (Continued)

- Expansion of Biologics partners: Following the growth of Biologics portfolios with existing partners Kasios and Cerapedics, LifeHealthcare has established long term supply agreements with RTI Surgical and MiMedx extending its Biologics presence into Allograft and Amniotic technologies with applications across Spine, Orthopaedics, Sports Medicine, Plastics, Abdominal Reconstruction, Wound Healing and Burns;
- Growth in Complex Lower Limb Orthopaedics: Enabled by 3D Printed patient specific implants from 4-Web, magnetic growth technology from Ellipse and a comprehensive revision portfolio from Link, LifeHealthcare's Orthopaedic division continued to realise strong growth across complex revision, limb lengthening and limb salvage applications;
- Comprehensive Ultrasound portfolio: Following the integration of the M4 acquisition in May 2015, LifeHealthcare's market leading Ultrasound portfolio extends from specialised Cardiac and Vascular to Point-of-Care ultrasound applications, enabling an unparalleled offering for major greenfield hospital developments;
- Spinal Robotics increased penetration: Following the placement of two further Mazor Renaissance spinal robotics units, the adoption of this advanced planning and surgical robotics technology has enabled leading hospitals to improve screw placement accuracy, drive surgical efficiencies and improved patient outcomes;
- Specialist surgical tables: With the launch of the Trios surgical table from Mizuho OSi, LifeHealthcare reinforced its position as market leader for specialised surgical table solutions in Spine and Orthopaedics;
- Increased Interventional Cardiology presence: following the acquisition of Medical Vision Australia in October 2015, LifeHealthcare extended its presence in Interventional Cardiology representing the Volcano portfolio from Philips and launching iFR diagnostic technology;
- Laparoscopic growth: With the launch of LiquiBand Fix8 tissue adhesive for hernia mesh fixation and Oxiplex AP adhesion barrier for abdominal / pelvic surgery, LifeHealthcare strengthened its portfolio and drove market share growth in general surgery biologic solutions;
- Operational restructure: As growth and channel expansion drive LifeHealthcare towards a position of greater scale, an operational restructure was executed in 2016 to align the workforce to the unique requirements of the implant and capital businesses, ensuring improved efficiencies and enhanced customer experiences;
- Automation: LifeHealthcare's drive towards best practice in supply chain management has seen an ongoing investment in fiscal year 2016 including automated inventory management solutions to improve working capital optimisation and inventory security;
- Investment in People and Culture: A focus on harnessing and enhancing workplace culture and the ongoing development of LifeHealthcare's talent pool saw an investment in our People and Culture, providing strengthened capability to ensure organisation engagement, recruitment and retention drive LifeHealthcare's growth agenda in the coming year; and
- Investment in Corporate Development: As LifeHealthcare embarks on its fourth year as an ASX listed entity and expands its strategic horizon to new channels and connected patient solutions, the organisation is well positioned with the recruitment of a dedicated Corporate Development position to strengthen investor relations, strategy and its' acquisitions pipeline.

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 2016

### Operational and financial review (Continued)

#### FY 2016 Operating Results Summary

\$million	30/6/16	30/6/15	% Change
<b>Revenue</b>	<b>114.8</b>	<b>99.3</b>	<b>15.6%</b>
<b>Underlying EBITDA</b>	<b>19.3</b>	<b>17.3</b>	<b>11.6%</b>
Transaction expenses	(0.3)	(0.3)	16.5%
<b>Statutory EBITDA</b>	<b>19.0</b>	<b>17.0</b>	<b>11.5%</b>
Depreciation	(3.8)	(3.0)	26.9%
Amortisation of software costs	(0.1)	(0.3)	(63.3%)
Amortisation of identifiable intangibles	(1.6)	(0.5)	240.0%
<b>Statutory EBIT</b>	<b>13.6</b>	<b>13.3</b>	<b>1.9%</b>
Net interest	(2.3)	(1.6)	48.8%
<b>Profit before Income Tax</b>	<b>11.2</b>	<b>11.8</b>	<b>(4.3%)</b>
Income tax expense	(3.7)	(8.0)	(53.6%)
<b>Profit for the year</b>	<b>7.5</b>	<b>3.7</b>	<b>102.2%</b>
<b>Underlying NPATA</b>	<b>8.8</b>	<b>8.7</b>	<b>1.4%</b>

#### Earnings per Share (Basic) (cents)

Statutory NPAT	17.6	8.7
Underlying NPATA	20.8	20.5

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

Sales revenue of \$114.8 million (2015 \$99.3 million) was up by 15.6% on the prior year. The medical devices market experienced consistent year on year growth throughout the year. This coupled with the full year benefit of M4 Healthcare Pty Ltd acquired in fiscal year 2015, the acquisition and integration of Medical Vision Australia Cardiology and Thoracic Pty Ltd on 2 October 2015 and strong organic growth from new product introductions and customers, resulted in LifeHealthcare achieving above market growth in key segments of the markets in which it operates.

LifeHealthcare launched 14 major new products in fiscal year 2016 contributing close to \$5.5 million in additional revenue which contributed to revenue growth of \$15.5 million (15.6%).

Statutory EBITDA of \$19.0 million (2015 \$17.0 million) was up by 11.5% on the prior year. Statutory EBITDA/sales margin of 16.6% was below 2015 at 17.2% due to gross margin affected by ongoing deterioration of AUD and a change in mix of capital and consumables from recent acquisitions. This was partially offset by product mix and margin management strategies including supplier pricing.

NPATA of \$8.8 million (2015: \$8.7 million) was up by 1.4% on the prior year due to the one-off income tax expense of \$4.5 million arising from the revision of accounting estimates relating to the deferred tax asset.

#### Financial Position and Cash Flows

LifeHealthcare's net debt position of \$33.6m, an increase from prior year due to the acquisition of Medical Vision Australia Cardiology and Thoracic Pty Limited on 2 October 2015 for \$9.0m cash (net cash of \$8.6m).

LifeHealthcare's facilities amount to \$47 million, including an \$8 million working capital facility available, of which \$36.6 million is drawn, providing headroom of \$10.4 million as at fiscal yearend.

Operating cash-flow before adjustment for interest, tax and transaction related expenses was \$13.8m, a reduction from prior year of \$17.3m as a result of additional working capital increases to support the 15.6% sales growth experienced during the year.

## **Directors' Report**

**30 June 2016**

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

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

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

- **Organisational Efficiency and Effectiveness:** LifeHealthcare will drive automation and improvements to systems and processes to deliver increased efficiencies providing leverage on operating expenses and enhancing business model robustness. An example of the initiatives undertaken in fiscal year 2016 include the purchase of an additional inventory carousel in order to automate inventory management thereby improving working capital and inventory security.
- **Channel Optimisation:** LifeHealthcare will increase market share in existing therapeutic divisions and provide greater breadth of offering in these divisions. LifeHealthcare leverages its strong existing market position to further penetrate the market through new product introductions such as the introduction of the Everest XT next generation minimally invasive spine system enabling progressive percutaneous techniques.
- **Biologics Growth:** LifeHealthcare has developed a three phased approach to expand into emerging Biologics technology. The first phase is to expand LifeHealthcare's osteobiologics presence into human tissue sub segments. Phase two is to enter the wound healing, sports medicine and soft tissue markets followed by phase three of expanding into advanced regenerative biologics including bio print and bio fabrication. LifeHealthcare is progressing well against this plan with the establishment of long term supply agreements with RTI Surgical and MiMedix.
- **Develop Solutions to Address Changing Needs of Healthcare:** LifeHealthcare will develop solutions that address healthcare needs including healthcare economics, connectivity, pre and postoperative care, as examples. LifeHealthcare has appointed a dedicated corporate development role in fiscal year 2016 to identify and map out these future growth markets.

#### **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 remain a key risk to the business where LifeHealthcare buys the majority of products from US 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.

## Directors' Report

**30 June 2016**

### Operational and financial review (Continued)

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.

Government reforms in the healthcare industry, in particular the Private Health Insurance review announced in fiscal year 2016 may impact LifeHealthcare. LifeHealthcare continues to work with its member body, the Medical Technology Association of Australia in providing all necessary information required as part of the review.

### Other items

#### Significant changes in state of affairs

On the 26th August 2015 Daren McKennay resigned as Chief Executive Officer and Matt Muscio was appointed Chief Executive Officer and Managing Director.

On the 2nd October 2015, a subsidiary company acquired a 100% interest of Medical Vision Australia Cardiology and Thoracic Pty Limited which resulted in LifeHealthcare Group Limited obtaining control of Medical Vision Australia Cardiology and Thoracic Pty Limited. This acquisition has extended LifeHealthcare's presence in Interventional Cardiology. The acquisition cost included cash consideration of \$9.0 million with an additional contingent consideration (refer to Note 7(a)).

On the 28th October 2015 David Wiggins resigned as Chief Financial Officer and Company Secretary and Dean Taylor was appointed as the Chief Financial Officer and Company Secretary.

On the 25th November 2015 Heith Mackay-Cruise was appointed non-executive director.

#### Dividends paid or recommended

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Final dividend paid	<b>3,190,325</b>	3,187,500
Interim dividend paid	<b>2,126,883</b>	3,187,501
<b>Total dividends paid</b>	<b><u>5,317,208</u></b>	<b><u>6,375,001</u></b>

The final dividend for the year ended 30 June 2015 of 7.5 cents per fully paid ordinary share, totalling \$3,190,325 was paid on 25 September 2015, the dividend was unfranked.

An interim ordinary dividend of 5.0 cents per fully paid ordinary share, totalling \$2,126,883 was paid on 19 March 2016, the dividend was unfranked.

#### Events after the reporting date

On the 23rd of August 2016 the Directors declared the payment of a final dividend of 7.5 cents (2015: 7.5 cents) per fully paid ordinary share, the dividend will be unfranked.

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

## Directors' Report

30 June 2016

### Other items (Continued)

#### Future developments and results

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

#### Environmental issues

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

#### Auditor

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

#### Meetings of Directors

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

	Directors' Meetings		Audit & Risk Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Bill Best	11	10	4	4	-	-
Matthew Muscio	9	9	3	3	2	2
John Hickey	11	10	4	4	-	-
Donna Staunton	11	10	4	3	2	2
Heith Mackay-Cruise	7	7	2	2	-	-
Daren McKennay	2	2	1	1	-	-

## Directors' Report

30 June 2016

### Indemnification and insurance of officers and auditors

During the financial year, LifeHealthcare Group Limited paid a premium of \$100,891 (2015: \$106,510) 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 options totalled 1,706,228 detailed as follows:

<b>Grant Date</b>	<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number of ordinary shares under option</b>
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
30 June 2015	30 June 2020	\$3.42	439,999
28 October 2015	28 October 2020	\$3.23	312,706

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.

LifeHealthcare established the LifeHealthcare Group Limited Employee Option Plan (formerly the LifeHealthcare Pty Limited Employee Option Plan) on 5 February 2009. The Employee Option Plan is designed to provide long-term incentives for 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 2016

### 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 2016:

	2016	2015
	\$	\$
Other assurance services	-	80,000
Taxation services	11,000	40,000
Transaction related costs	-	65,000
	<u>11,000</u>	<u>185,000</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 2016 has been received and can be found on page 21 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 2016

### Remuneration report (audited)

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

The table below lists the executives of the Company whose remuneration details are outlined in this Remuneration Report. These executives, together with the Non-Executive Directors, are defined as Key Management Personnel (KMP) under accounting standards. In this report, KMP refers to the KMP other than the Non-Executive Directors. Non-Executive Directors have oversight of the strategic direction of the Company but have no direct involvement in the day-to-day management of the business

Key Management Personnel (KMP)	Position
Name	
Matthew Muscio	Chief Executive Officer (from 26 August 2015) (Previously Chief Operating Officer to 26 August 2015)
Dean Taylor	Chief Financial Officer and Company Secretary (from 28 October 2015)
David Wiggins	Chief Financial Officer and Company Secretary (to 28 October 2015)

#### Remuneration policy

This section outlines the elements of KMP remuneration in fiscal year 2016, how remuneration is linked to performance and how remuneration outcomes are delivered.

LifeHealthcare's remuneration framework is designed to attract, motivate, reward and retain executives through a remuneration approach that is globally relevant, competitive, aligns with shareholder interests and has a high perceived value. It also provides a combination of incentives intended to drive performance against the Company's short and longer term objectives. The remuneration framework for each KMP comprises the following components:

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

KMP receive a superannuation guarantee contribution required by the law, which was 9.5% for the 2016 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.

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.



## Directors' Report

30 June 2016

### Remuneration report (audited) (Continued)

#### Relationship between remuneration policy and company performance

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

#### Short-Term Incentive

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

#### Long-Term Incentive

The Long-Term Incentive Plan (LTIP) is intended to drive performance against the Company's long-term business objectives and to encourage the alignment of personal and shareholder interests.

#### Company Performance

The following table shows the gross revenue, profits and dividends for fiscal year 2016 for the Group:

	2016	2015
	\$'000	\$'000
Revenue	114,787	99,313
Net Profit	7,499	3,744
Share Price at Year-end (\$)	1.66	3.50
Dividends Paid (\$'000)	5,317	6,375
Dividends Paid (cents)	12.5	15.0

#### 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.

#### 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.

## Directors' Report

30 June 2016

### Remuneration report (audited) (Continued)

#### Service Agreements (Continued)

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

	<b>Term</b>	<b>Notice period</b>	<b>Base salary including superannuation</b>	<b>Termination Period*</b>
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 to 28 October 2015)	No fixed term	6 months	\$325,000	6 months
Dean Taylor (Chief Financial Officer from 28 October 2015)	No fixed term	6 months	\$350,000	6 months

\* - If terminated with notice and without cause.

## Directors' Report

30 June 2016

### Remuneration report (audited) (Continued)

#### Remuneration details for the year ended 30 June 2016

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

#### Table of benefits and payments

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

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

## Directors' Report

30 June 2016

### Remuneration report (audited) (Continued)

Remuneration details for the year ended 30 June 2016 (Continued)

	Cash salary/ fees \$	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>2015</b>										
<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	88,787	-	523,564
David Wiggins (full year)	268,493	122,500	-	-	390,993	25,507	14,060	-	-	430,560
	<u>1,302,576</u>	<u>464,500</u>	-	-	<u>1,767,076</u>	<u>104,696</u>	<u>66,965</u>	<u>118,053</u>	-	<u>2,056,790</u>

\* 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 2016**

### **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**

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

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

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

## Directors' Report

30 June 2016

### Remuneration report (audited) (Continued)

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

	Grant details	For the financial year ended 30 June 2016					Overall		
		Date	No.	Value \$	Exercised		Unvested %	Lapsed %	
					No.	\$			
<b>KMP</b>									
Matthew Muscio	28 October 2015	312,706	247,288	-	-	-	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 2016

### Remuneration report (audited) (Continued)

#### Loans to KMPs

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

	2016	2015
	\$	\$
Daren McKennay	-	60,000

This loan was interest free and had no fixed repayment term and has been fully repaid.

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

## Directors' Report

30 June 2016

### Remuneration report (audited) (Continued)

#### Key management personnel shareholdings (Continued)

	Balance 1 July 2014	Disposal of shares	Shares acquired during the year	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
Donna Staunton	5,000	-	-	-	5,000
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>2,099,550</u>	<u>(284,400)</u>	<u>-</u>	<u>(125,000)</u>	<u>1,690,150</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 a KMP is nil.

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



**Matt Muscio**  
Director

Sydney

Dated 23 August 2016





## Auditor's Independence Declaration

As lead auditor for the audit of LifeHealthcare Group Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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 that reads 'S.T. Maher'.

Shannon Maher  
Partner  
PricewaterhouseCoopers

Sydney  
23 August 2016

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## Corporate Governance Statement

30 June 2016

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

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

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

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

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

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

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

### Responsibilities of the Board

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

- Providing strategic direction for and approving LifeHealthcare's strategies, objective and budgets;
- Monitoring the operation and financial position and performance of LifeHealthcare;
- Identifying the principal risks faced by LifeHealthcare and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- 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;
- Monitoring and managing the social, ethical, environment and economic impact of LifeHealthcare's activities; and
- Approving and reviewing from time to time, LifeHealthcare's internal compliance procedures, including the Code of Conduct and taking all reasonable steps to ensure that the business of LifeHealthcare is conducted in an open and ethical manner.

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

## Corporate Governance Statement

30 June 2016

### Appointment of new Directors

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

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

### Director and Executive Terms of Appointment

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

### Company Secretary Responsibilities

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

### Diversity policy

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

LifeHealthcare strives to:

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

LifeHealthcare has not set measurable objectives for achieving gender diversity.

Gender diversity in LifeHealthcare is evidenced by:

Proportion of:	June 2016		June 2015	
	Number	Percentage	Number	Percentage
Women employees in the whole organisation	86	49%	81	51%
Women in executive positions**	3	33%	2	20%
Women on the Board	1	20%	1	25%

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

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

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

## Corporate Governance Statement

30 June 2016

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

### Evaluation of Directors and Executives

A performance evaluation for the Board, Directors and committees takes place on an annual basis. The process undertaken in this reporting period identified the need for additional skills and experiences following the resignations during the year. This review resulted in the appointment of an additional non-executive director in November 2015.

A performance assessment of senior executives takes place annually in June, the last occasion being June 2016. The assessment is undertaken with each of the senior executives by the CEO. The process is facilitated by the General Manager of People and Culture.

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

## Principle 2: Structure the Board to add Value

### Composition of the Board

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

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

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

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

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

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

### Board committees

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

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

*Remuneration Committee:* The Board has established a Remuneration Committee on 26th April 2016. Donna Staunton is the Chair of the Remuneration Committee. Members of the Committee are the CEO, Company Secretary and General Manager of People and Culture. Copies of the minutes of the Committee meetings are made available to the full Board, and the Chair of the Committee provides an update on the outcomes at the Board meeting that immediately follows the Committee meeting.

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

## Corporate Governance Statement

30 June 2016

### Independent decision making

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

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

Whether the Director:

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

### Role of the Chair

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

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

### Access to information

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

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

### Board Members Skills Matrix

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

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

## Corporate Governance Statement

30 June 2016

### Directors Independence and Experience

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

A majority of current Directors are independent Directors.

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

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

### Induction of New Directors

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

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

### Code of conduct

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

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

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

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

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

## Corporate Governance Statement

30 June 2016

### Principle 4: Safeguard integrity in financial reporting

#### Audit and Risk Committee

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

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

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

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

#### Maintenance of Financial Records

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

#### External auditor

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

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

### Principle 5: Make timely and balanced disclosure

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

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

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

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

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

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

## Corporate Governance Statement

30 June 2016

### Principle 6: Respect the rights of shareholders

#### Investor Communication

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

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

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

#### Investor Relations Program

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

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

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

### Principle 7: Recognise and manage risk

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

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



## Corporate Governance Statement

30 June 2016

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

Name	Qualifications and experience	Number of meetings held while a Director	Number of meetings attended
John Hickey Chairman of the Committee Independent director	BBus; More than 20 years' experience in the healthcare sector.	4	4
Bill Best Independent director	BComm, LLB, MComm; More than 30 years' experience in investment banking and stockbroking.	4	4
Heith Mackay-Cruise Independent director (appointed 25th November 2015)	BEC: Extensive consumer and technology experience and as an independent non-executive director.	2	2
Donna Staunton Independent director	BA, LLB; Extensive healthcare and government relations experience.	4	3
Matt Muscio (appointed 26th April 2016)	BBus, Extensive healthcare and management experience.	3	3

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

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

### Principle 8: Remunerate fairly and responsibly

#### Remuneration Committee

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

Due to the size of LifeHealthcare and composition of the Board, the Committee does not comply with Recommendation 8.1 which suggests a majority of independent directors to ensure independence from management.

Donna Staunton is the Chair of the Remuneration Committee. Members of the Committee are the CEO, Company Secretary and General Manager of People and Culture. A quorum must contain one independent director for a meeting to be established and Independent Chair has casting vote.

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

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

## Corporate Governance Statement

30 June 2016

Attendance by committee members was:

Name	Qualifications and experience	Number of meetings held while a Director	Number of meetings attended
Donna Staunton Chairman of the Committee Independent Director (appointed 26th April 2016)	BA, LLB; Extensive healthcare and government relations experience.	2	2
Matt Muscio (appointed 26th April 2016)	BBus, Extensive healthcare and management experience.	2	2

### Remuneration Policy

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

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

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

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

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

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

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

Each Board member who is involved with reviewing executive remuneration:

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

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

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

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.

## Corporate Governance Statement

30 June 2016

### Share Trading Policy

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

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

**Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2016**

	Note	2016 \$'000	2015 \$'000
Revenue	4	114,787	99,313
Cost of goods sold		(50,828)	(43,370)
Employee benefits expense		(30,003)	(26,221)
Depreciation and amortisation expense	13,14	(5,429)	(3,775)
Travel expenses		(2,721)	(2,417)
Occupancy expenses		(1,658)	(1,535)
Distribution expenses		(2,266)	(2,070)
Marketing and advertising expenses		(1,949)	(1,517)
Telecommunications expense		(355)	(276)
Director fees		(339)	(306)
Motor vehicle expenses		(264)	(235)
Transaction related expenses		(337)	(291)
Other expenses		(5,078)	(3,920)
Finance costs	5	(2,307)	(1,559)
Share of loss from interest in joint venture		(21)	(38)
<b>Profit before income tax</b>		<b>11,232</b>	<b>11,783</b>
Income tax (expense)/benefit	6	(3,733)	(8,039)
<b>Profit for the year</b>		<b>7,499</b>	<b>3,744</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translating foreign controlled entities	22(a)	57	(15)
Changes in the fair value of cash flow hedges	22(c)	(3,168)	2,424
Income tax relating to components of other comprehensive income	6	950	(727)
<b>Other comprehensive income for the year, net of tax</b>		<b>(2,161)</b>	<b>1,682</b>
<b>Total comprehensive income for the year</b>		<b>5,338</b>	<b>5,426</b>
Profit attributable to:			
Members of the parent entity		7,499	3,744
Total comprehensive income attributable to:			
Members of the parent entity		5,338	5,426
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
From continuing operations:			
Basic earnings per share (cents)		17.6	8.7
Diluted earnings per share (cents)		17.0	8.6

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

**Consolidated Balance Sheet**  
**As at 30 June 2016**

	Note	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	9	4,051	6,003
Trade and other receivables	10	24,852	17,132
Inventories	11	35,400	30,454
Derivative financial assets	12	452	2,007
TOTAL CURRENT ASSETS		<u>64,755</u>	<u>55,596</u>
NON-CURRENT ASSETS			
Investment in joint ventures	31	390	388
Property, plant and equipment	13	10,118	9,582
Deferred tax assets	6	6,074	8,327
Intangible assets	14	28,427	21,572
TOTAL NON-CURRENT ASSETS		<u>45,009</u>	<u>39,869</u>
TOTAL ASSETS		<u>109,764</u>	<u>95,465</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	15	24,215	18,623
Borrowings	16	2,856	-
Current tax liabilities		731	860
Provisions	19	1,681	1,894
Derivative financial liabilities	18	1,563	-
Other current liabilities	17	259	352
TOTAL CURRENT LIABILITIES		<u>31,305</u>	<u>21,729</u>
NON-CURRENT LIABILITIES			
Borrowings	16	33,808	29,646
Provisions	19	553	497
Derivative financial liabilities	18	647	550
TOTAL NON-CURRENT LIABILITIES		<u>35,008</u>	<u>30,693</u>
TOTAL LIABILITIES		<u>66,313</u>	<u>52,422</u>
NET ASSETS		<u>43,451</u>	<u>43,043</u>
<b>EQUITY</b>			
Contributed equity	20	26,276	26,276
Reserves	22	(2)	1,772
Retained earnings	21	17,177	14,995
TOTAL EQUITY		<u>43,451</u>	<u>43,043</u>

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 2016

	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 2015</b>	26,276	14,995	173	612	987	43,043
Profit for the year	-	7,499	-	-	-	7,499
Total other comprehensive income for the year	-	-	57	-	(2,218)	(2,161)
<b>Transactions with owners in their capacity as owners</b>						
Dividends declared (Note 26)	-	(5,317)	-	-	-	(5,317)
Share based payment transactions	-	-	-	387	-	387
Shares issued during the year	-	-	-	-	-	-
<b>Balance at 30 June 2016</b>	<b>26,276</b>	<b>17,177</b>	<b>230</b>	<b>999</b>	<b>(1,231)</b>	<b>43,451</b>
<b>Balance at 1 July 2014</b>	26,173	17,626	188	387	(710)	43,664
Profit for the year	-	3,744	-	-	-	3,744
Total other comprehensive income for the year	-	-	(15)	-	1,697	1,682
<b>Transactions with owners in their capacity as owners</b>						
Dividends declared (Note 26)	-	(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>

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 2016**

	Note	2016 \$'000	2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers		133,592	110,316
Payments to suppliers and employees		<u>(119,788)</u>	<u>(92,971)</u>
		13,804	17,345
Interest received		17	4
Interest and other finance costs paid		(2,307)	(1,559)
Income taxes paid		(1,047)	(154)
Transaction related expenses	7	<u>(339)</u>	<u>(291)</u>
Net cash provided by operating activities	34	<u>10,128</u>	<u>15,345</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments for investments in joint ventures		(23)	(58)
Purchase of property, plant and equipment	13	(5,076)	(4,203)
Payment for acquisition of subsidiary, net of cash acquired	7	<u>(8,664)</u>	<u>(8,227)</u>
Net cash used by investing activities		<u>(13,763)</u>	<u>(12,488)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid	26	(5,317)	(6,375)
Proceeds from borrowings, net of costs		9,000	9,000
Repayment of borrowings		(2,000)	(2,387)
Issue of new shares		-	103
Net cash provided by financing activities		<u>1,683</u>	<u>341</u>
Net increase/(decrease) in cash and cash equivalents held		(1,952)	3,198
Cash and cash equivalents at beginning of year		<u>6,003</u>	<u>2,805</u>
Cash and cash equivalents at end of year	9	<u>4,051</u>	<u>6,003</u>

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

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

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 23 August 2016.

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

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

Comparatives are consistent with prior years, unless otherwise stated.

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

#### **1 Basis of Preparation**

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

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

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

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

#### **2 Summary of Significant Accounting Policies**

##### **(a) Principles of Consolidation**

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

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

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

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



## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (a) Principles of Consolidation (Continued)

###### ***Subsidiaries***

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

###### ***Joint Arrangements***

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

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

###### ***Joint ventures***

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

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

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

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

##### (b) Business combinations

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

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

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (b) Business combinations (Continued)

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

##### (c) Income Tax

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

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

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

Deferred tax is not provided for the following:

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

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

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

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

##### (d) Revenue and other income

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (d) Revenue and other income (Continued)

###### Sale of goods

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

###### Interest income

Interest is recognised using the effective interest method.

##### (e) Cash and cash equivalents

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

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

##### (f) Inventories

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

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

##### (g) Financial instruments

###### Financial assets

Financial assets are classified in the following categories:

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

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

###### 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.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (g) Financial instruments (Continued)

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

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

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

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

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

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.

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.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (g) Financial instruments (Continued)

###### *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.

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.

##### (h) Impairment of non-financial assets

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

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

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

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (h) Impairment of non-financial assets (Continued)

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

##### (i) Property, Plant and Equipment

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

##### Depreciation

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

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

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

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

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

##### (j) Intangible Assets

##### Goodwill

Goodwill is 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.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (j) Intangible Assets (Continued)

###### IT development and software

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

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

###### Other intangible assets

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

##### (k) Leases

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

##### (l) Borrowing costs

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

##### (m) Trade and other payables

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

##### (n) Employee benefits

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (n) Employee benefits (Continued)

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

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

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

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

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

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

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

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

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

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

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

##### (o) Provisions

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



## Notes to the Financial Statements

For the Year Ended 30 June 2016

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

#### (o) Provisions (Continued)

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

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

#### (p) Borrowings

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

#### (q) Earnings per share

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

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

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

#### (r) Contributed equity

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

#### (s) Operating segments

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

#### (t) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of GST.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (t) Goods and Services Tax (GST) (Continued)

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

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

##### (u) Foreign currency transactions and balances

###### Functional and presentation currency

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

###### Transaction and balances

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

At the end of the reporting period:

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

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

###### Group companies

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

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

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

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

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

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

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

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

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

##### (w) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by Group
AASB 9 <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	<p>Following the changes approved by the AASB in December 2014, the Group no longer expects any material impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities.</p> <p>The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>The Group 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 2017.</p>

**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**2 Summary of Significant Accounting Policies (Continued)**

**(w) 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.</p> <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 2018. Expected date of adoption by the Group: 1 July 2017.</p>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

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

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

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

#### 3 Critical accounting estimates and judgements

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

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

##### Impairment of goodwill

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

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

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

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

The Group's review includes the key assumptions related to the sensitivity in the cash flow projections. Further details are provided in Note 14 to the consolidated financial statements.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 3 Critical accounting estimates and judgements (Continued)

##### Deferred tax assets

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

##### Provision for impairment of inventories

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

##### Useful lives of assets

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

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

##### Provision for doubtful debts

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 4 Revenue and Other Income

##### Revenue from continuing operations

	2016 \$'000	2015 \$'000
Sales revenue		
- Sale of goods	114,770	99,309
Finance income		
- Interest income	17	4
<b>Total Revenue</b>	<b>114,787</b>	<b>99,313</b>

#### 5 Result for the Year

	2016 \$'000	2015 \$'000
<b>Finance Costs</b>		
- Bank loans and overdrafts	1,993	1,312
- Other net finance costs	314	247
<b>- Total finance costs</b>	<b>2,307</b>	<b>1,559</b>

The result for the year includes the following specific expenses:

	2016 \$'000	2015 \$'000
<b>Other expenses:</b>		
Defined contribution superannuation expense	1,680	1,431
Rental expense on operating leases:		
- Minimum lease payments	1,103	1,279

#### 6 Tax

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

	2016 \$'000	2015 \$'000
Current tax	987	187
Deferred tax	2,746	7,852
<b>Total income tax expense/(benefit)</b>	<b>3,733</b>	<b>8,039</b>



**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**6 Tax (Continued)**

(b) Reconciliation of income tax to accounting profit:

	2016 \$'000	2015 \$'000
Profit before tax	11,232	11,783
Tax rate	30 %	30 %
	<u>3,370</u>	<u>3,535</u>
Add:		
Tax effect of:		
- entertainment	48	38
- sundry items	4	8
- option expense	115	68
- revision of estimate/(ACA inventory uplift)	-	4,479
- adjustments for current tax of prior periods	196	(89)
Income tax expense/(benefit)	<u><u>3,733</u></u>	<u><u>8,039</u></u>

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

	2016 Tax (Expense) Benefit \$'000	2015 Tax (Expense) Benefit \$'000
Cash flow hedges	<u><u>950</u></u>	<u><u>(727)</u></u>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

## 6 Tax (Continued)

(d) 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	835	476	-	1,311
Derivatives	304	-	(727)	(423)
Inventory	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>	<u>17,229</u>	<u>(8,175)</u>	<u>(727)</u>	<u>8,327</u>
Provisions	1,311	(98)	-	1,213
Derivatives	(423)	-	950	527
Inventory	5,947	(2,066)	-	3,881
IPO transaction costs	849	(195)	-	654
Other items	473	(106)	-	367
Tax losses	721	(721)	-	-
	8,878	(3,186)	950	6,642
<b>Offset by deferred tax liability relating to:</b>				
Intangible assets	(551)	485	(502)	(568)
<b>Balance at 30 June 2016</b>	<u>8,327</u>	<u>(2,701)</u>	<u>448</u>	<u>6,074</u>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 7 Business Combinations

##### a) Medical Vision Australia Cardiology & Thoracic Pty Limited acquisition

On 2 October 2015, a subsidiary company acquired a 100% interest in Medical Vision Australia Cardiology & Thoracic Pty Limited ("MVA") which resulted in LifeHealthcare Group Limited obtaining control of MVA. 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.

	<b>Fair value \$'000</b>
Purchase consideration:	
- Cash	9,000
- Contingent consideration	489
<b>Total purchase consideration</b>	<u>9,489</u>
Assets or liabilities acquired:	
Cash and cash equivalents	336
Trade and other receivables	1,172
Inventories	704
Property, plant and equipment	315
Intangible assets	1,671
Trade and other payables	(822)
Provisions	(66)
Current tax liabilities	(47)
Deferred tax liabilities	(501)
<b>Net identifiable assets acquired</b>	<u>2,762</u>
Add: goodwill	<u>6,727</u>
<b>Net assets acquired</b>	<u><u>9,489</u></u>

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 MVA included in the consolidated revenue of the Group since the acquisition date on 2 October 2015 amounted to \$ 3,824,424 with a profit of \$ 401,466.

Had the results of MVA been consolidated from 1 July 2015, revenue of the Group would have been \$ 115,920,587 and consolidated profit would have been \$ 7,633,610 for the year ended 30 June 2016. 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 2015.

##### Contingent consideration

In the event the acquiree's annualised EBITDA increases from acquisition to the period ended 31 December 2016, the Group has agreed to pay the selling shareholders a multiple of 4.0 x the increase to a maximum of \$2,000,000. Based on MVA's actual profit for the period to 30 June 2016, and forecast performance to 31 December 2016, the Group estimates that the maximum additional consideration payable, is likely to be \$600,000. The Group included contingent consideration of \$489,715 which is the fair value based on probability and a discount rate of 14.5%.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 7 Business Combinations (Continued)

##### Acquisition-related costs

Included within Transaction related expenses in the consolidated statement of comprehensive income are acquisition related costs totalling \$ 279,700. The costs include legal and due diligence fees.

##### b) M4 Healthcare Pty Limited acquisition

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.

	<b>Fair value \$'000</b>
Purchase consideration:	
- Cash	9,000
- Contingent consideration	516
<b>Total purchase consideration</b>	<b>9,516</b>
Assets or liabilities acquired:	
Cash and cash equivalents	773
Trade receivables	1,271
Other receivables and prepayments	29
Inventories	779
Property, 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 for the period from the acquisition date on 27 May 2015 to 30 June 2015 amounted to \$651,401 with a profit of \$78,638.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

#### **7 Business Combinations (Continued)**

Had the results of M4 Healthcare Pty Limited been consolidated from 1 July 2014, revenue of the the Group for the year ended 30 June 2015 would have been \$106,644,280 and consolidated profit would have been \$8,825,978. 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 year after acquisition, the Group has agreed to pay the selling shareholders an additional \$ 600,000. As at 30 June 2015, the Group had included contingent consideration of \$516,000 which is the fair value based on probability and a discount rate of 14.0%.

The M4 Healthcare Pty Limited Share Purchase Agreement was amended in November 2015 such that an amount of \$300,000 would be payable in December 2015, and the balance in the event that the consolidated gross profit of the acquired business with Life Healthcare ultrasound business for the year ended 30 June 2016 is achieved. As at 30 June 2016, the Group had included contingent consideration of \$300,000 which is the value based on probability and a discount rate of 14%.

#### **Acquisition-related costs**

Included within Transaction related expenses in the consolidated statement of comprehensive income for the year ended 30 June 2015 are acquisition related costs totalling \$294,100. The costs include legal and due diligence fees.

#### **8 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

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 8 Operating Segments (Continued)

#### (a) Segment performance

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

	<b>Medical devices</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>		
Revenue from external customers	114,770	99,309
Adjusted EBITDA	<u>19,305</u>	17,408
Transaction related expenses	(337)	(291)
Depreciation and amortisation expense	(5,429)	(3,775)
Finance costs	(2,307)	(1,559)
Income tax (expense)/benefit	<u>(3,733)</u>	(8,039)
<b>Total net profit after tax</b>	<u><u>7,499</u></u>	<u><u>3,744</u></u>

#### (b) Geographical information

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

	<b>2016</b>		<b>2015</b>	
	<b>Revenue</b>	<b>Non-current</b>	<b>Revenue</b>	<b>Non-current</b>
	<b>\$'000</b>	<b>assets</b>	<b>\$'000</b>	<b>assets</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Australia	109,145	44,862	94,199	44,175
New Zealand	5,625	147	5,110	173

#### (c) Major customers

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

### 9 Cash and cash equivalents

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	<u><u>4,051</u></u>	<u><u>6,003</u></u>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 10 Trade and other receivables

	2016 \$'000	2015 \$'000
Trade receivables	23,859	15,820
Prepayments	748	979
Amounts due from joint ventures	39	36
Other receivables	206	297
	<u>24,852</u>	<u>17,132</u>

#### (a) Impairment of receivables

As at 30 June 2016 the Group does not require an impairment provision for receivables (2015: Nil).

#### (b) Aged analysis

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

	2016 \$'000	2015 \$'000
91-120 days (past due not impaired)	159	82
120+ days (past due not impaired)	432	12
	<u>591</u>	<u>94</u>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

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

##### (d) Fair value of trade and other receivables

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

#### 11 Inventories

	2016 \$'000	2015 \$'000
Finished goods	<u>35,400</u>	<u>30,454</u>

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



## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 12 Derivative financial assets

	2016 \$'000	2015 \$'000
Forward foreign exchange and currency options contracts - cash flow hedges	452	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.

#### 13 Property, plant and equipment

	2016 \$'000	2015 \$'000
Plant and equipment		
At cost	21,235	16,990
Accumulated depreciation	(11,297)	(7,580)
Total plant and equipment	<u>9,938</u>	<u>9,410</u>
Furniture, fixtures and fittings		
At cost	175	159
Accumulated depreciation	(150)	(117)
Total furniture, fixtures and fittings	<u>25</u>	<u>42</u>
Leasehold improvements		
At cost	1,464	1,374
Accumulated depreciation	(1,309)	(1,244)
Total leasehold improvements	<u>155</u>	<u>130</u>
Total plant and equipment	<u><u>10,118</u></u>	<u><u>9,582</u></u>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 13 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 2016</b>				
Balance at the beginning of year	9,410	42	130	9,582
Additions	4,959	16	101	5,076
Disposals - written down value	(785)	-	-	(785)
Depreciation expense	(3,646)	(33)	(76)	(3,755)
<b>Balance at the end of the year</b>	<b>9,938</b>	<b>25</b>	<b>155</b>	<b>10,118</b>
<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>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 14 Intangible Assets

	2016 \$'000	2015 \$'000
Computer software		
Cost	3,655	3,556
Accumulated amortisation and impairment	<u>(3,345)</u>	<u>(3,234)</u>
	<u>310</u>	<u>322</u>
Goodwill		
Cost	64,565	57,807
Accumulated impairment	<u>(38,307)</u>	<u>(38,307)</u>
	<u>26,258</u>	<u>19,500</u>
Supply contracts		
Cost	3,410	3,638
Accumulated amortisation	<u>(1,551)</u>	<u>(1,888)</u>
	<u>1,859</u>	<u>1,750</u>
<b>Total intangible assets</b>	<u><u>28,427</u></u>	<u><u>21,572</u></u>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 14 Intangible Assets (Continued)

##### Reconciliation Detailed Table

	Computer software \$'000	Goodwill \$'000	Supply contracts \$'000	Total \$'000
<b>Consolidated</b>				
<b>Year ended 30 June 2016</b>				
Balance at the beginning of the year	322	19,500	1,750	21,572
Additions	98	6,758	1,672	8,528
Disposals	-	-	-	-
Amortisation	(110)	-	(1,563)	(1,673)
<b>Closing value at 30 June 2016</b>	<b>310</b>	<b>26,258</b>	<b>1,859</b>	<b>28,427</b>
	Computer software \$'000	Goodwill \$'000	Supply contracts \$'000	Total \$'000
<b>Consolidated</b>				
<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>

##### Impairment disclosures

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 14 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 FY17 budget and FY17-FY20 projections;
- A growth rate to extrapolate cashflows beyond the 5 year period of 3%; and
- A discount rate applied to forecast pre-tax cash flows of 14.0%.

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

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

#### 15 Trade and other payables

	2016 \$'000	2015 \$'000
Trade payables	17,261	13,018
Accrued commissions and bonuses	3,497	3,200
Other payables (a)	3,457	2,405
	<u>24,215</u>	<u>18,623</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 2016

#### 16 Borrowings

	2016 \$'000	2015 \$'000
CURRENT		
Secured liabilities:		
Bank loans	<u>2,856</u>	-
NON-CURRENT		
Secured liabilities:		
Bank loans	<u>33,808</u>	<u>29,646</u>

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

	2016 \$'000	2015 \$'000
<b>First Mortgage:</b>		
Property, plant and equipment	10,118	9,582

(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 2016

#### 16 Borrowings (Continued)

##### (d) Terms and conditions

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

- The Multi Option Facility is renewable annually in October. Components of the facility comprise bank guarantees, corporate credit cards, cash advance facility and a bank overdraft. The facility has a limit of \$8,000,000 (30 June 2015: \$8,000,000). At 30 June 2016, the facility was drawn to \$562,222 for bank guarantees and corporate credit cards (30 June 2015: \$509,963 for bank guarantees and corporate credit cards).
- 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 \$39,000,000 (30 June 2015: \$30,000,000) which was drawn down to \$37,000,000 at 30 June 2016 (30 June 2015: \$30,000,000).

#### 17 Other Financial Liabilities

	2016	2015
	\$'000	\$'000
CURRENT		
Deferred income	<u>259</u>	<u>352</u>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 18 Derivative financial liabilities

	2016 \$'000	2015 \$'000
<b>CURRENT</b>		
Forward foreign exchange and currency options contracts - cash flow hedges (a)	1,563	-
<b>NON-CURRENT</b>		
Interest rate swap contracts (b)	647	550

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

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

#### (b) Interest rate swap contracts - cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 4.16% (2015: 4.35%). 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.

### 19 Provisions

	2016 \$'000	2015 \$'000
<b>CURRENT</b>		
Warranties (a)	207	405
Employee benefits (b)	1,474	1,489
	<u>1,681</u>	<u>1,894</u>
<b>NON-CURRENT</b>		
Employee benefits - long service leave (b)	239	206
Make good provision (c)	314	291
	<u>553</u>	<u>497</u>



## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 19 Provisions (Continued)

##### a) Warranties

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

	Warranties 2016 \$'000	Warranties 2015 \$'000
<b>Current</b>		
Opening balance	405	-
Additional provisions	-	405
Provisions used	(198)	-
<b>Balance at 30 June</b>	<b>207</b>	<b>405</b>

##### b) Employee benefits

The provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those employees who are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of \$1,474,000 (2015: \$1,489,000) is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The above amounts reflect leave that is not expected to be taken or paid within the next 12 months.

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

	2016 \$'000	2015 \$'000
Current leave obligations expected to be settled after 12 months	239	206

##### c) Make good provisions

	Make good provision 2016 \$'000	Make good provision 2015 \$'000
<b>Non-current</b>		
Opening balance	291	297
Additions/(reversals)	23	(6)
<b>Balance at 30 June</b>	<b>314</b>	<b>291</b>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 20 Contributed equity

	2016 \$'000	2015 \$'000
42,537,651 (2015: 42,537,651) Ordinary shares	<u>26,276</u>	<u>26,276</u>

	Number of shares	\$'000
<b>Share capital</b>		
Share capital as at 1 July 2014	42,500,000	26,173
Employee salary sacrifice share plan issue	<u>37,651</u>	<u>103</u>
<b>Balance as at 30 June 2015</b>	<u>42,537,651</u>	<u>26,276</u>
<b>Balance as at 30 June 2016</b>	<u><b>42,537,651</b></u>	<u><b>26,276</b></u>

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

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

#### (a) Options

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

#### (b) 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 2016

#### 21 Retained Earnings

	2016 \$'000	2015 \$'000
Balance 1 July	14,995	17,626
Net profit for the year	7,499	3,744
Ordinary dividends paid	(5,317)	(6,375)
<b>Balance 30 June</b>	<b>17,177</b>	<b>14,995</b>

#### 22 Reserves

	2016 \$'000	2015 \$'000
<b>Foreign currency translation reserve (a)</b>		
Balance 1 July	173	188
Currency translation differences arising during the year	57	(15)
<b>Balance 30 June</b>	<b>230</b>	<b>173</b>
<b>Cash flow hedge reserve (c)</b>		
Balance 1 July	987	(710)
Reclassification adjustments - Transfer to profit or loss (gross)	(3,168)	2,424
Reclassification adjustments - Deferred tax asset/(liability)	950	(727)
<b>Balance 30 June</b>	<b>(1,231)</b>	<b>987</b>
<b>Share-based payments reserve (b)</b>		
Balance 1 July	612	387
Employee share plan expense	387	225
<b>Balance 30 June</b>	<b>999</b>	<b>612</b>
<b>Total reserves</b>	<b>(2)</b>	<b>1,772</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 2016

### 23 Earnings per Share

	<b>2016</b>	<b>2015</b>
	<b>cents</b>	<b>cents</b>
<b>(a) Basic earnings per share attributable to ordinary equity holders of the Group</b>	<b>17.6</b>	<b>8.7</b>
<b>(b) Diluted earnings per share attributable to ordinary equity holders of the Group</b>	<b>17.0</b>	<b>8.6</b>
<b>(c) Earnings used in calculating earnings per share</b>		
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Basic earnings per share	<b>7,499</b>	3,744
Diluted earnings per share	<b>7,499</b>	3,744
<b>(d) Weighted average number of shares used as denominator</b>		
	<b>2016</b>	<b>2015</b>
	<b>Number</b>	<b>Number</b>
Number of ordinary shares used as the denominator in calculating basic earnings per share	<b>42,537,651</b>	42,510,728
Number of ordinary shares used as the denominator in calculating diluted earnings per share	<b>44,165,990</b>	43,596,307

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 24 Capital and Leasing Commitments

##### Non-Cancellable Operating Leases

	2016 \$'000	2015 \$'000
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	1,115	960
- between one year and five years	2,598	2,700
	3,713	3,660

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.

#### 25 Financial Risk Management

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

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

##### Financial instruments used

The Group holds the following financial instruments:

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

##### Objectives, policies and processes

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

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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **25 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 2016

### 25 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Non-derivatives</b>												
Trade and other payables	23,494	18,623	-	-	-	-	-	-	23,494	18,623	23,494	18,623
Borrowings and interest	2,414	-	1,834	-	4,632	-	31,504	30,000	40,384	30,000	36,664	29,646
Deferred service revenue	90	59	90	59	79	117	-	117	-	-	259	352
	<b>25,998</b>	<b>18,682</b>	<b>1,924</b>	<b>59</b>	<b>4,711</b>	<b>117</b>	<b>31,504</b>	<b>30,117</b>	<b>63,878</b>	<b>48,623</b>	<b>60,417</b>	<b>48,621</b>
<b>Derivatives and options</b>												
Net settled (forward exchange contracts - cash flow hedges)	(574)	(1,588)	(537)	(419)	-	-	-	-	-	-	(1,111)	(2,007)
Net settled (interest rate swaps)	-	-	-	-	-	-	647	550	647	550	647	550
	<b>(574)</b>	<b>(1,588)</b>	<b>(537)</b>	<b>(419)</b>	<b>-</b>	<b>-</b>	<b>647</b>	<b>550</b>	<b>647</b>	<b>550</b>	<b>(464)</b>	<b>(1,457)</b>
<b>Total</b>	<b>25,424</b>	<b>17,094</b>	<b>1,387</b>	<b>(360)</b>	<b>4,711</b>	<b>117</b>	<b>32,151</b>	<b>30,667</b>	<b>64,525</b>	<b>49,173</b>	<b>59,953</b>	<b>47,164</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 25 Financial Risk Management (Continued)

#### Market risk

##### *(i) Foreign currency risk*

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

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

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

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

	USD \$'000	NZD \$'000	Euro \$'000	Other currencies \$'000
<b>2016</b>				
Trade and other receivables	-	1,861	-	-
Trade and other payables	7,124	2	455	216
Forward foreign exchange and currency options contracts	44,521	-	-	-
<b>2015</b>				
Trade and other receivables	-	2,086	-	-
Trade and other payables	4,244	873	233	-
Forward foreign exchange and currency options contracts	38,281	-	-	-



## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 25 Financial Risk Management (Continued)

If the Australian Dollar had strengthened and weakened against the USD, NZD and Euro by 10% (30 June 2015: 10%) respectively then this would have had the following impact:

	2016		2015	
	+10%	-10%	+10%	-10%
<b>USD</b>				
Net results (\$'000)	655	(801)	390	(477)
Equity (\$'000)	1,658	(2,026)	1,658	(2,026)
<b>NZD</b>				
Net results (\$'000)	206	(252)	(110)	135
<b>Euro</b>				
Net results (\$'000)	40	(49)	21	(26)

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

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

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

	2016	2015
	\$'000	\$'000
Net foreign exchange gain/(loss) included in other income/expense	39	79

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

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

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

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2015: +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 2016

#### 25 Financial Risk Management (Continued)

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

			2016		2015	
	2016	2015	+1.00%	-1.00%	+1.00%	-1.00%
	Balance	Balance	\$'000	\$'000	\$'000	\$'000
Derivatives	(647)	(550)				
Net results			185	(185)	150	(150)
Borrowings	(37,000)	(30,000)				
Net results			(370)	370	(300)	300

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

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of 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	
			2016	2015	2016	2015
			%	%	\$'000	\$'000
Bank overdraft and bank loan			4.89	4.35	(37,000)	(30,000)
Interest rate swap (notional and principal amount)			3.44	3.66	(18,500)	(15,000)

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 25 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.

#### 26 Dividends

##### (a) Ordinary shares

	2016 \$'000	2015 \$'000
Final dividend for the year ended 30 June 2015 of 7.5 cents (2014: 7.5 cents) per fully paid share	3,190	3,188
Interim dividend for the year ended 30 June 2016 of 5 cents (2015: 7.5 cents) per fully paid share	2,127	3,187
	<u>5,317</u>	<u>6,375</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.

	Cents per share	Total amount	Expected date of payment
Final dividend	7.50	\$ 3,190,324	23 September 2016

**Notes to the Financial Statements**  
**For the Year Ended 30 June 2016**

**26 Dividends (Continued)**

**Franking account**

2016	2015
\$'000	\$'000

The franking credits available for subsequent financial years at a tax rate of 30% (2015: 30%)

-	-
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**27 Related Parties**

**Key management personnel remuneration**

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

	2016	2015
	\$	\$
Short-term employee benefits	1,137,810	1,767,076
Long-term benefits	306,803	66,965
Post-employment benefits	90,851	104,696
Share-based payments	232,390	118,053
	<u>1,767,854</u>	<u>2,056,790</u>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 27 Related Parties (Continued)

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 2016.

No termination payments were made in 2016 or 2015.

#### 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:

	2016	2015
	\$	\$
Beginning of the year	60,000	61,045
Loans repaid	<b>(60,000)</b>	(1,045)
<b>End of year</b>	<b>-</b>	<b>60,000</b>

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

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 28 Remuneration of Auditors

	2016	2015
	\$	\$
Remuneration of the auditor of the parent entity, PricewaterhouseCoopers Australia, for:		
<b>Audit and other assurance services</b>		
Audit and review of financial statements	226,000	218,000
Taxation services	11,000	40,000
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>237,000</b>	<b>258,000</b>
<b>Other related entities of PricewaterhouseCoopers Australia</b>		
<b>Audit and assurance services</b>		
<b>Other services</b>		
Transaction related costs	-	65,000

### 29 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
- Lifehealthcare Services Pty Limited
- M4 Healthcare Pty Limited
- Medical Vision Australia Cardiology & Thoracic Pty Limited

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 29 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.

	2016 \$'000	2015 \$'000
<b>Consolidated Statement of Comprehensive Income</b>		
Revenue	109,145	93,547
Cost of Sales	<u>(49,958)</u>	<u>(41,897)</u>
<b>Gross Profit</b>	<b>59,187</b>	<b>51,650</b>
Operating expense	(46,161)	(39,128)
Finance costs	<u>(2,294)</u>	<u>(1,559)</u>
<b>Profit before income tax</b>	<b>10,732</b>	<b>10,963</b>
Income tax (expense)/benefit	<u>(3,405)</u>	<u>(7,806)</u>
<b>Profit after income tax</b>	<b><u>7,327</u></b>	<b><u>3,157</u></b>
<b>Other comprehensive income</b>		
Changes in the fair value of cash flow hedges	(2,883)	1,697
Income tax relating to components of other comprehensive income	<u>665</u>	<u>(509)</u>
<b>Profit attributable to members of the closed group</b>	<b><u>5,109</u></b>	<b><u>4,345</u></b>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

	2016 \$'000	2015 \$'000
<b>Consolidated Balance Sheet</b>		
<b>Current Assets</b>		
Cash and cash equivalents	3,957	4,396
Trade and other receivables	22,991	15,137
Other financial assets	-	2,007
Inventories	34,405	29,111
<b>Total Current Assets</b>	<b>61,353</b>	<b>50,651</b>
<b>Non-Current Assets</b>		
Property, plant and equipment	9,983	9,278
Intangible Assets	28,264	22,523
Deferred tax assets	6,031	8,168
Other receivables	390	388
<b>Total Non-Current Assets</b>	<b>44,668</b>	<b>40,357</b>
<b>Total Assets</b>	<b>106,021</b>	<b>91,008</b>
<b>Current Liabilities</b>		
Trade and other payables	22,467	16,366
Current tax liability	739	-
Provisions	1,225	1,265
<b>Total Current Liabilities</b>	<b>24,431</b>	<b>17,631</b>
<b>Non-Current Liabilities</b>		
Borrowings	36,664	29,646
Other financial liabilities	1,563	550
Provisions	735	627
<b>Total Non-Current Liabilities</b>	<b>38,962</b>	<b>30,823</b>
<b>Total Liabilities</b>	<b>63,393</b>	<b>48,454</b>
<b>Net Assets</b>	<b>42,628</b>	<b>42,554</b>
<b>Equity</b>		
Issued Capital	26,275	26,275
Reserves	(235)	1,788
Retained earnings	16,588	14,491
<b>Total Equity</b>	<b>42,628</b>	<b>42,554</b>



## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 30 Interests in Subsidiaries

(a) **Composition of the Group**

	<b>Principal place of business / Country of Incorporation</b>	<b>Percentage Owned (%)*</b> 2016	<b>Percentage Owned (%)*</b> 2015
<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
Coefficient Technologies Pty Limited	Australia	100	100
Coefficient Systems Pty Limited	Australia	100	100
Surgical Access Pty Limited	Australia	100	100
Central Neurophysiology Supplies Pty Limited	Australia	100	100
Austspine Pty Limited	Australia	100	100
M4 Healthcare Pty Limited	Australia	100	100
Medical Vision Australia Cardiology & Thoracic Pty Limited	Australia	100	-

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

### 31 Interests in Joint Arrangements

	<b>Type of joint arrangement</b>	<b>Principal place of business / Country of Incorporation</b>	<b>Percentage Owned (%)*</b> 2016	<b>Percentage Owned (%)*</b> 2015
<b>Joint arrangements:</b>				
Electrocore (Aust) Pty Limited	Joint Venture	Australia	50	50

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

#### **Electrocore (Aust) Pty Limited**

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 31 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 2016 \$'000	Electrocore 2015 \$'000
<b>Summarised consolidated balance sheet</b>		
Cash and cash equivalents	10	11
Other current assets	3	24
Non-current assets	603	761
Current financial liabilities	(7)	(10)
Other current liabilities	(114)	(91)
<b>Net assets</b>	<b>495</b>	<b>695</b>
<b>Summarised consolidated statement of comprehensive income</b>		
<b>Revenue</b>	<b>3</b>	<b>4</b>
Depreciation and amortisation	(9)	(12)
Profit/(loss) from continuing operations	(197)	(81)

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 31 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:

	2016 \$'000	2015 \$'000
<b>Electrocore</b>		
Group's share of 50% of net assets	246	348
Contributions yet to be paid	144	40
Carrying amount	<u>390</u>	<u>388</u>

There are no other joint ventures held by the Group.

#### 32 Fair Value Measurement

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

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

##### Fair value hierarchy

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

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

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 32 Fair Value Measurement (Continued)

Fair value hierarchy (Continued)

30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Recurring fair value measurements</b>				
Derivative financial assets	-	2,007	-	2,007
Derivative financial liabilities (non-current)	-	(550)	-	(550)
Contingent consideration	-	-	(516)	(516)
	-	1,457	(516)	941

#### Transfers between levels of the hierarchy

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

#### Fair value measurements

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

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

#### 33 Contingencies

##### Contingent Liabilities

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

##### (i) Guarantees

The Group has a bank guarantee at 30 June 2016 for the performance of certain office lease commitments to a maximum of \$388,827 (2015: \$468,510). This may be called upon by the bank on the next review of the facility agreement which is in October 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 2016, the Group has contributed cash of \$758,985 (2015: \$749,846).

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 34 Cash Flow Information

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

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

	2016 \$'000	2015 \$'000
Profit for the year	7,499	3,744
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	5,429	3,775
- make good expense	(8)	-
- Foreign currency translation reserve	59	-
- share options expensed	382	225
Share of loss of joint venture	21	38
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- increase in trade and other receivables	(6,810)	(1,676)
- decrease in prepayments	189	133
- increase in inventories	(4,242)	(2,205)
- decrease in deferred tax assets	3,204	7,744
- increase in trade and other payables	4,205	3,355
- increase in income taxes payable	590	64
- (decrease)/increase in provisions	(390)	148
Cashflow from operations	<u>10,128</u>	<u>15,345</u>

#### 35 Share-based Payments

The Group established the LifeHealthcare Group Limited Employee Option Plan (formerly the Lifehealthcare Pty Limited Employee Option Plan) on 5 February 2009. The Employee Option Plan is designed to provide long-term incentives for 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 2016

### 35 Share-based Payments (Continued)

A summary of the Group options issued is as follows:

			Exercise price	Start of the year	Granted/ (forfeited) during the year	Exercised during the year	Balance at the end of the year	Vested and exercisable at the end of the year
	2016	Expiry Date	\$	Number	Number	Number	Number	Number
	Grant Date							
	28 June 2013	28 June 2018	1.54	690,391	-	-	690,391	-
	5 December 2013	5 December 2018	2.00	155,144	-	-	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	-
	28 October 2015	28 October 2020	3.23	-	312,706	-	312,706	-
				1,551,722	154,506	-	1,706,228	-
	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	-

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

As at the date of exercise, the weighted average share price of options exercised during the year was \$Nil (2015: \$Nil).

The weighted average remaining contractual life of options outstanding at year end was 2.78 years (2015: 3.82). The weighted average exercise price of outstanding options at the end of the reporting period was \$2.32.

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

The weighted average fair value of the options granted during the year was \$ 0.79 (2015: \$ 1.11). These values were calculated by using a Black-Scholes option pricing model applying the following inputs:

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

The share price at 30 June 2016 was \$1.66 (2015: \$3.50).

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 2016 are summarised below:

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

<b>Earnings per share performance</b>	<b>% that vests</b>
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 2016

#### 35 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 \$387,774 (2015: \$225,009).

#### 36 Events Occurring After the Reporting Date

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

#### 37 Parent entity financial information

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

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

#### ***Investments in subsidiaries, associates and joint ventures***

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

#### ***Tax consolidation legislation***

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

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

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

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

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

#### 37 Parent entity financial information (Continued)

	2016	2015
	\$'000	\$'000
<b>Balance Sheet</b>		
Assets		
Current assets	-	-
Non-current assets	85,104	85,104
Total Assets	<u>85,104</u>	<u>85,104</u>
Equity		
Contributed equity	<u>85,104</u>	<u>85,104</u>
Profit or loss for the year	<u>-</u>	<u>-</u>
<b>Contingent liabilities</b>		

The parent entity did not have any contingent liabilities as at 30 June 2016 (2015: nil).

## **Directors' Declaration**

In the Directors' opinion:

1. the financial statements and notes set out on pages 32 - 94 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
3. at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 29 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 29.

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

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

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



**Matthew Muscio**  
Director

Dated 23 August 2016  
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 2016, 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 Accounting 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*.

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### *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 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards 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 12 to 20 of the directors' report for the year ended 30 June 2016. 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 2016 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. Maher'.

Shannon Maher  
Partner

Sydney  
23 August 2016