pulsehealth

2016

ANNUAL REPORT

Contents

Dear Shareholder,

I have pleasure in presenting to you Pulse Health Limited's annual report for the financial year ended 30 June 2016 (FY16). This, my ninth report to you, describes another year of good growth, but also a year of challenging trading conditions for our rehabilitation hospitals.

Underlying EBITDA was $9.1m from established businesses, excluding one-off items, acquisition costs and greenfield ramp-up losses, against guidance to the market on 25 May for underlying EBITDA of between $8.7m and $9.9m.

Successful execution of our growth strategy continued, with the addition of four day surgeries and a new greenfield specialist surgical hospital in Australia, together with a specialist surgical hospital in New Zealand. This brings our asset portfolio to thirteen.

Whilst the immediate focus of our management team is on integration of these newly acquired hospitals and day surgeries, as well as the development of additional revenue streams for our rehabilitation hospitals and the ongoing ramp-up of our new Gold Coast Surgical Hospital, our growth strategy remains unchanged. In time we expect to add further high quality, well located specialist mental health or surgical hospitals and day surgeries through acquisition, or through greenfield developments executed in partnership with doctors.

I remain very positive about the long term fundamentals of the private health sector. Demand will continue to grow due to the ageing population, the growth in chronic and degenerative disease, and advancements in medical technology that render more procedures and interventions possible and desirable. These growth factors will increasingly challenge the ability of public hospitals to cope, a factor that is driving Government policy to remain supportive of private health insurance coverage.

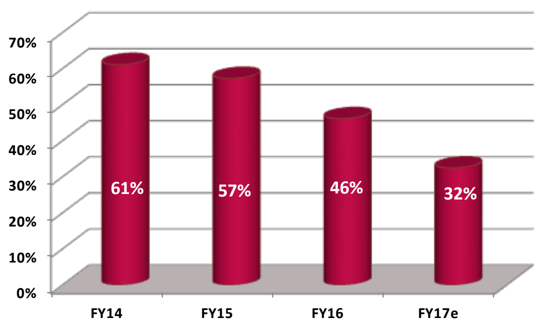
We paid a fully franked dividend of 0.3 cents per share for the first half of FY16. We have not declared a further dividend for FY16 because we believe it to be more prudent to strengthen the flexibility of our balance sheet.

As always I take this opportunity to thank the staff and doctors at all of our hospitals, my fellow Directors and our management team for their hard work and commitment throughout the year.

Stuart James
Chairman
31 August 2016

Dear Shareholder,

I have pleasure in providing this report to the shareholders of Pulse Health Limited. The year ended June 2016 (FY16) was an exciting but challenging year for Pulse. It was a year of transition from a revenue base strongly concentrated around rehabilitation hospitals and regional acute hospitals to a more diversified revenue base and metro business concentration. Consistent with our strategy, we have grown via acquisition and development of high quality, well located, niche specialist private hospitals and day surgeries.



Decline in reliance on rehabilitation revenue

Notwithstanding competitive challenges in our rehabilitation hospitals and an extended ramp-up for the Gold Coast Surgical Hospital, Group revenue grew 29% whilst underlying EBITDA-R from established hospitals grew by 41% (excludes ramp-up costs associated with the Gold Coast Surgical Hospital, and one-off items and acquisition costs).

Asset Portfolio – five new assets

FY16 saw the company's footprint expand beyond New South Wales and Queensland to include Victoria and New Zealand.

Four specialist endoscopy units (day surgeries) were acquired in January and February, in Melbourne and Sydney. These specialist day surgeries bring to Pulse world class clinical practice and operating processes for endoscopy care, a rapidly growing specialty largely focused on early detection and treatment of bowel cancer, one of the leading causes of deaths by cancer.

A specialist surgical hospital, Boulcott Hospital, in the Hutt Valley, in New Zealand's Wellington Region, was added to the Group on 1 July 2016. Boulcott Hospital has three operating theatres, 29 beds, an endoscopy unit, and a large, modern medical consulting suite building, which includes full service radiology. With approximately 45 accredited doctors, across nearly all surgical specialties, it is co-located with the public, 300-bed Hutt Hospital.

In August 2015, we commissioned a new greenfield specialist surgical hospital, the Gold Coast Surgical Hospital, at Varsity Lakes on the central Gold Coast. This new hospital, with some of the most advanced surgical technology in Australia, has six operating theatres, 24 inpatient beds, a large day surgery, a high dependency unit, and co-located radiology and pathology services.

The hospital has been very enthusiastically received by local surgeons and in order to accommodate their demand for high complexity patients requiring inpatient care, and for particular operating times, the inpatient ward was opened sooner than anticipated and more theatres were commissioned more quickly than anticipated. Ramp-up costs were therefore higher than originally forecast. While ramp-up losses are decreasing month on month, we expect this hospital to remain loss-making through most of FY17 before turning to profit in FY18.

To put this in context, our investment in FY15/16 in Gold Coast Surgical Hospital was $16.0m, including capital costs for building fit-out and equipment, and ramp-up losses. We anticipate that this investment will grow to between $17.5m and $19.5m in FY17, as we continue the operational ramp-up. This investment is delivering us a new state of the art surgical hospital that is similar to Boulcott Hospital, though with more operating theatres and more advanced technology. Our investment in Boulcott Hospital was NZ$20.0m and we expect to deliver $2.6m EBITDA there in FY17. As Gold Coast Surgical Hospital matures, a similar earnings profile is anticipated.

A number of specific business development initiatives will drive revenue growth, including establishment of new services in partnership with doctors and additional revenue sources through new contractual arrangements. We are confident that the medium and long term growth prospects for the hospital remain strong.

Established assets

The Hills Clinic, the Sydney mental health hospital we acquired in May 2015, has continued to perform very strongly. Utilisation is high and initiatives in place now are expected to lead to full utilisation in FY17. Brownfield expansion plans are being progressed.

Gympie Private Hospital, a two theatre surgical hospital with medical admissions, continues to grow surgical services, adding a number of surgeons during the year. Without the high volume ophthalmology contract that boosted revenue in FY15, activity was lower.

Forster Private Hospital, a two theatre hospital that also provides medical and rehabilitation services, has performed strongly, with increases in revenue and EBITDA. Initiatives in place to implement new rehabilitation programmes and attract additional surgeons are expected to further grow utilisation in FY17.

Revenue and underlying earnings were down across our three rehabilitation hospitals. New competitors entered our key markets on the Sunshine Coast and in Western Sydney and other competitors added capacity, at a time when demand softened rather than continuing to grow as expected. This demand softening was felt across the board and is thought to be due to a range of factors including actions by health funds and the Medical Benefits Schedule freeze. Industry forecasting data continues to point to very strong growth in demand for rehabilitation care over the next five years, in keeping with the ageing population, increasing chronic health conditions and technology development.

Mackay Rehabilitation Hospital has continued to ramp-up, reaching good utilisation levels in the second half of the year, but the economic impact of the mining downturn continues to dampen demand for private health care in that market.

Our Rehabilitation Business Development Program will see us add a number of new programs in our hospitals in FY17, meeting gaps in the market for rehabilitation care and driving revenue growth through new referral sources.

Outlook for FY17

In FY17 we intend to focus largely on consolidation of our new acquisitions, continued development of Gold Coast Surgical Hospital, and our Rehabilitation Business Development Program, though we do remain committed to our growth strategy.

We expect underlying EBITDA of between $13.5m and $15.5m from established assets and we expect that our investment in the Gold Coast Surgical Hospital will grow to between $17.5m and $19.5m dependant on the timing of business development initiatives.

Thank you to the Pulse Team

Delivering the growth that we achieved in FY16 does not happen without a lot of people working very hard, while maintaining a focus on high quality care for patients and service for doctors.

For this I thank them all.

Phillipa Blakey

Managing Director and Chief Executive Officer
31 August 2016

The Directors of Pulse Health Limited ('Pulse Health') present their Report together with the financial statements of the consolidated entity, being Pulse Health Limited ('the Company') and its controlled entities ('the Group') for the year ended 30 June 2016.

Director details

The following persons were Directors of Pulse Health Limited during or since the end of the financial year.

Mr Stuart James
BA (Hons), MAICD, FAIM

Independent Non-Executive Director
Independent Chairman

Director Since 2007

Member of Audit and Risk Committee
Member of Remuneration Committee

Stuart is an experienced executive within the financial and healthcare sectors. Stuart's past roles have included Managing Director of Australian Financial Services for Colonial and Managing Director of Colonial State Bank (formerly the State Bank of N.S.W).

Stuart has also held the executive role as CEO of the Mayne Group from January 2002 to January 2005. Prior to that, Stuart was Mayne's Chief Operating Officer from July 2000 to January 2002.

Other Current Directorships
Greencross Limited (ASX:GXL)

Previous Directorships (last 3 years)
Phosphagenics Ltd
Wolters Kluwer NV
Affinity Education Group Ltd (ASX:AFJ)
Prime Financial Group Limited (ASX:PFG)

Interest in shares:
3,906,293 shares

Interest in options/rights:
None

Mr Craig Coleman
BCom

Non-Executive Director

Director since 2010

Chair of Audit and Risk Committee
Chair of Remuneration Committee

Craig is the executive chairman of Viburnum Funds Pty Ltd, a funds management company based in Perth, Western Australia.

He is a former Managing Director of Home Building Society Limited.

Prior to joining Home Building Society, Craig held a number of senior executive positions and directorships with ANZ including Managing Director Banking Products, Managing Director Wealth Management and Non-Executive Director of E*Trade Australia Limited.

Other Current Directorships
Bell Financial Group Limited (ASX:BFG)
Rubik Financial Limited (ASX:RFL)
Universal Biosensors Inc. (ASX:UBI)

Previous Directorships (last 3 years)
Amcom Telecommunications Limited (ASX:AMM)
Lonestar Resources Limited (ASX;LNR)
Keybridge Capital Limited (ASX:KBC)

Interest in shares:
2,101,750 shares

Interest in options/rights:
None

Mr David L. Manning
MIE
Non-Executive Director

Appointed 20 July 2015

Member of Audit and Risk Committee
Member of Remuneration Committee

David is an experienced healthcare leader in the surgery centre sector.

David is the co-founder of Practice Development Associates in the US, which constructed over 75 new surgery centres. Practice Development Associates grew to become AmSurg Corp, now a US$3.4b NASDAQ listed company operating more than 248 day surgery centres across the US.

Until his retirement in December 2014, David held the role of Executive Vice President and Chief Development Officer at AmSurg Corp.

Other Current Directorships
None

Previous Directorships (last 3 years)
None

Interest in shares:
1,500,000 shares

Interest in options/rights:
1,000,000 options

Ms Phillipa Blakey
MBA (Exec.), GAICD, MAICD
Managing Director

Director since 2014

Phillipa has been Pulse Health Group CEO since June 2013 and was appointed Managing Director in May 2014.

As an experienced healthcare executive, she has held COO roles in NSW Health (10 hospitals across North Sydney and Central Coast) and the Amity Group (48 for-profit nursing homes, CVC owned and then sold to Bupa).

Most recently, Phillipa was CEO and director of Think Education Pty Ltd, the private higher education provider previously owned by SEEK Group.

Other Current Directorships
None

Previous Directorships (last 3 years)
Bairo Pite Hospital (Australia) Ltd

Interest in shares:
13,638 shares

Interest in options/rights:
700,000 rights

Company Secretary
David Franks is a chartered accountant and experienced company secretary. David is currently company secretary of the following public companies: Armidale Investment Corporation Limited, Amerod Exploration Limited, ELK Petroleum Limited, JCurve Solutions Limited, Pulse Health Limited, Tomorrow Entertainment Limited, White Energy Technology Limited and White Energy Company Limited. David is also a non-executive director of JCurve Solutions Limited.

Operating and financial review

Principal activity

During the year, the principal continuing activities of entities within the Group were:

- operation of specialist private hospitals and day surgeries;
- acquisition and development of specialist private hospitals and day surgeries.

Group financial highlights

Pulse Health had revenue from continuing operations of $72.4m, up 29% on the previous year, leading to an underlying EBITDA of $9.1m after excluding one-off items and greenfield losses. EBITDA from established hospitals increased by 33% to $12.1m (2015 $9.1m)

Segment Revenue	FY16 $'000	FY15 $'000	Change	Change %
Private Hospitals - Established	68,892	56,150	12,742	23%
Private Hospitals - Greenfield	3,254	-	3,254	100%
Corporate / Unallocated	238	118	120	101%
Totals	72,385	56,268	16,116	29%

Segment EBITDA	FY16 $'000	FY15 $'000	Change	Change %
Private Hospitals - Established	12,096	9,094	3,002	33%
Corporate / Unallocated	(3,021)	(2,486)	(535)	22%
	9,075	6,608	2,467	37%
Private Hospitals - Greenfield	(6,074)	-	(6,074)	100%
Totals	3,001	6,608	(3,607)	-55%

Reconciliation of AIFRS and non AIFRS financial information

The Directors believe the presentation of non-AIFRS financial information is useful for readers of this document as it provides information on the Company's profit results that is consistent with equity valuation and investment research methodologies generally adopted in Australia.

The following table reconciles the reported AIFRS profit result in the Statement of Profit or Loss and Other Comprehensive Income appearing in the attached financial report to underlying operating EBITDA and NPAT.

	2016 $'000	2015 $'000
Net profit/(loss) after tax as reported	**(3,865)**	**2,547**
Income tax expense	(1,045)	1,618
Depreciation and amortisation	2,268	1,000
Finance costs (net)	1,136	12
Rent paid	9,276	4,795
Acquisition activity expenses and associated costs	5,148	1,681
Greenfield EBITDA-R loss	3,819	-
Profit on sale of hospital freehold	-	(1,297)
Deferred consideration adjustment	(1,039)	-
Loss on discontinued business	-	1,047
Provision for impairment of receivable	399	-
EBITDA-R (Established business)*	**16,097**	**11,403**
Rent paid (Established business)	(7,022)	(4,795)
EBITDA (Established business)*	**9,075**	**6,608**
Depreciation and amortisation (Established business)	(1,318)	(1,000)
EBIT (Established business)*	**7,757**	**5,608**
Finance costs (net)	(1,136)	(12)
Profit before tax (Established business)	**6,621**	**5,596**
Income tax expense (Established business)	(1,976)	(1,504)
Net profit after tax before significant items from	**4,645**	**4,092**

For the financial year ended 30 June 2016 the following significant and non-recurring transactions occurred:

- During the year the Group incurred acquisition, development and integration costs of $5.1m. Of this amount, $2.8m related to the acquisition of Zenitas Holdings Pty Ltd (4 day surgeries) and Boulcott Hospital and $1.1m related to the unsuccessful acquisition of Vision Eye Limited.
- The fair value of contingent consideration payable to the vendors of the The Hills Clinic Pty Ltd was adjusted down by $1.0m.
- The provision for impaired receivable relates to surgical services performed in 2015 under a subcontract arrangement with a company that subsequently experienced financial difficulty. A repayment plan is in place for the full outstanding amount and interest.
- The Company commissioned the Gold Coast Surgical Hospital on 31 August 2015. The greenfield EBITDA-R disclosed above includes expenses incurred prior to opening, and ramp-up cost as the business moves to profitability.

* Non AIFRS financial information, not audited

Outlook
Pulse Health is pleased to advise that it expects that underlying FY17 EBITDA from established hospitals will be in the range of $13.5m to $15.5m. Ramp-up losses associated with the Gold Coast Surgical Hospital are expected to be in the range of $1.0m to $3.0m, before the greenfield development turns to profit in FY18.

Significant changes in the state of affairs
During the year, the following changes occurred within the Group:

Development of the Gold Coast Surgical Hospital

On 31 August 2015, the Group opened the Gold Coast Surgical Hospital at Varsity Lakes, Queensland. This is a purpose-built, specialist surgical hospital comprising 6 theatres and a 24 bed in-patient ward. Capital cost to the Group is approximately $16.0m and the business continues to ramp up.

Capital raising

During the year the Company raised $43.8m via a placement and fully underwritten rights issue.

Acquisition of Zenitas Holdings

On 15 January 2016, the Group acquired 100% of the issued capital of Zenitas Holdings, a company that had contractually agreed to complete the acquisition of 4 endoscopy speciality day surgeries in New South Wales and Victoria.

Acquisition of Boulcott Hospital

On 1 July 2016, the Group acquired 100% of the Boulcott Hospital in Wellington, New Zealand. The Hospital is a specialist surgical hospital similar to the Gold Coast Surgical Hospital, consisting of 4 theatres and 29 beds. Upfront consideration paid in cash $15.4m.

Dividends
In respect of the current year, a fully franked interim dividend of $777,000 was paid in April 2016 (2015: $492,000).

No final dividend has been declared (2015: $500,000).

Total dividends for FY16 are $777,000 (2015: $992,000).

Events arising since the end of the reporting period
Since the end of the year the following events have occurred:

- on 1 July 2016 Pulse completed the acquisition of Boulcott Hospital in Wellington, New Zealand for an upfront consideration of $15.4m.

- on 15 August 2016 Pulse paid the second earn out payment for the acquisition of The Hills Clinic Pty Ltd of $1.16m.

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Likely developments, business strategies and prospects
As reported last year, demand for surgical interventions is widely expected to continue to grow for the foreseeable future, as the population ages, and technology drives demand for more procedures and more repeat procedures. This ongoing growth in demand will require more surgical hospital capacity with continuously updated technology. Further, demand for mental health inpatient care will continue to grow, and the public health system is not adding additional inpatient capacity.

Our strategy, to grow via acquisition or development of niche specialist private hospitals, particularly mental health hospitals and surgical hospitals, is designed to capitalise on this growing demand. Having completed 5 acquisitions in FY16, our focus in FY17 will be on integrating these acquisitions, and adding revenue streams to our rehabilitation businesses.

Directors' meetings
The number of Directors' meetings (including meetings of committees of Directors) held during the year, and the number of meetings attended by each Director is as follows:

Director	Board Meetings		Audit & Risk Committee Meetings		Remuneration Committee Meetings		Independent Board Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Stuart James	15	15	3	3	3	3	1	1
Craig Coleman	15	15	3	3	3	3	1	1
David Manning	13	11	2	2	1	1	0	0
Phillipa Blakey	15	15	1	1	2	2	0	0

Remuneration Report (audited)
The Directors of Pulse Health Limited ('the Group') present the Remuneration Report for Non-Executive Directors, Executive Directors and other Key Management Personnel, prepared in accordance with the *Corporations Act 2001* and the *Corporations Regulations 2001*.

The Remuneration Report is set out under the following main headings:

a. principles used to determine the nature and amount of remuneration;
b. details of remuneration;
c. bonuses included in remuneration;
d. service agreements;
e. share-based remuneration; and
f. other information.

a. Principles used to determine the nature and amount of remuneration
The principles of the Group's executive remuneration strategy and supporting incentive programs and frameworks are:

- to align rewards to business outcomes that deliver value to shareholders;
- to drive a high performance culture by setting challenging objectives and rewarding high performing individuals; and
- to ensure remuneration is competitive in the relevant employment market to support the attraction, motivation and retention of executive talent.

The Board has established a Remuneration Committee which operates in accordance with its charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the Directors and the Executive Team.

The remuneration structure that has been adopted by the Group consists of the following components:

- fixed remuneration, being annual salary;
- short term incentives, being an annual cash bonus scheme; and
- long term incentives, being employee share schemes.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and Executive Team.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Non-Executive Directors' remuneration
Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of these Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined by a general meeting. The most recent determination was at the Annual General Meeting held on 26 March 2008, where the shareholders approved an aggregate remuneration of $500,000.

Non-Executive Directors do not receive performance related compensation and are not provided with retirement benefits apart from statutory superannuation.

The payment of bonuses, share options and other incentive payments are reviewed by the Remuneration Committee annually as part of the review of executive remuneration and a recommendation is put to the Board for approval. All bonuses, options and incentives must be linked to pre-determined performance criteria.

Short Term Incentive (STI)
Pulse Health performance measures involve the use of annual performance objectives, metrics and performance appraisals.

The performance measures are set annually after consultation with the Directors and executives and are specifically tailored to the areas where each executive has a level of control. The measures target areas the Board believes hold the greatest alignment between individual roles and company strategy, and cover financial and non-financial measures.

The Key Performance Indicators ('KPI's') for the executives are summarised as follows:

Performance area:
- **financial -** operating profit (underlying EBITDA), return on capital; and
- **non-financial** – outcome based, individually determined strategic measures.

The STI program provides cash bonuses for the executives as contracted and based on performance in relation to pre-agreed KPI's.

Long-term Incentives
The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives based on long-term incentive measures. The Remuneration Committee established the current long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2014.

Voting and comments made at the Company's last Annual General Meeting
Pulse Health Limited received in excess of 75% 'yes' votes on its Remuneration Report for the financial year ending 30 June 2015. The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

Consequences of performance on shareholder wealth
In considering the Group's performance and benefits for shareholder wealth, the Board had regard to the following indices in respect of the current financial year and the previous four financial years:

Item	2016	2015	2014	2013	2012
Revenue growth	29%	17%	9%	22%	5%
Underlying EBITDA ($'000)	9,075	6,608	4,679	4,713	3,948
Share price ($)	0.22	0.57	0.53	0.30	0.16

b. Details of remuneration

Details of the nature and amount of each element of the remuneration of Key Management Personnel of Pulse Health during the financial year are shown in the table below:

		Short Term Employee Benefits			Post-Employment Benefits	Long-Term Benefits		Termination Benefits	Share Based Payments		Performance Based
Employee	Year	Cash Salary & Fees ($)	Cash Bonus ($)	Non-Monetary Benefits ($)	Superannuation ($)	Cash Bonus ($)	Long Service Leave ($)	Termination Payments ($)	Options/Rights ($)	Total ($)	Percentage of Remuneration
Executive Directors											
Phillipa Blakey	2016	406,250	78,000	5,856	19,308	-	7,487	-	20,966	537,867	18%
Managing Director	2015	390,000	-	1,077	18,783	-	12,903	-	51,950	474,713	11%
Non-Executive Directors											
Stuart James	2016	100,000	-	-	-	-	-	-	-	100,000	-
Chairman	2015	100,000	-	-	-	-	-	-	-	100,000	-
Craig Coleman	2016	80,000	-	-	7,400	-	-	-	-	87,400	-
Non-Independent	2015	80,000	-	-	7,400	-	-	-	-	87,400	-
David Manning[1]	2016	55,699	-	-	-	-	-	-	63,747	119,446	53%
Independent	2015	-	-	-	-	-	-	-	-	-	-
Other Key Management Personnel											
Matthew Mackay	2016	214,375	31,500	13,484	17,984	-	5,240	-	8,386	290,969	14%
COO	2015	188,714	19,217	7,615	17,942	-	6,752	-	20,780	261,020	15%
Mark Hays	2016	260,417	37,500	25,423	18,804	-	4,783	-	8,386	355,313	13%
CFO	2015	250,000	20,000	10,752	18,784	-	7,940	-	20,780	328,256	12%
Total 2016		**1,116,741**	**147,000**	**44,763**	**63,496**	**-**	**17,510**	**-**	**101,485**	**1,490,995**	
Total 2015		**1,008,714**	**39,217**	**19,444**	**62,909**	**-**	**27,595**	**-**	**93,510**	**1,251,389**	

[1] David Manning - Appointed 20 July 2015

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration	At risk - STI	At risk - LTI
Executive Directors			
Phillipa Blakey	82%	15%	3%
Other Key Management Personnel			
Matthew Mackay	86%	11%	3%
Mark Hays	87%	11%	2%

Since the long-term incentives are provided exclusively by way of rights, the percentages disclosed also reflect the value of remuneration consisting of rights, based on the value of rights expensed during the year.

c. Bonuses included in remuneration

Details of the short-term incentive cash bonuses awarded as remuneration to Key Management Personnel, the percentage of the available bonus that was paid in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years.

Name	Included in remuneration ($)	Percentage vested in year	Percentage forfeited in year
Managing Director			
Phillipa Blakey	78,000	50%	50%
Other Key Management Personnel			
Matthew Mackay	31,500	50%	50%
Mark Hays	37,500	50%	50%

d. Service agreements

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base salary ($)	Term of agreement	Notice period
Phillipa Blakey	409,500	No fixed term	Six months
Matthew Mackay	221,250	No fixed term	Six months
Mark Hays	262,500	No fixed term	Six Months

Base salaries are as at 30 June 2016, exclude superannuation and are reviewed annually by the Remuneration Committee.

e. Share-based remuneration

All options refer to options over ordinary shares of the Company, which are vested on a one-for-one basis under the terms of the agreements.

Options granted to executives will vest at the agreed dates.

Upon vesting, each option allows the holder to purchase one ordinary share at the agreed exercise price.

Options granted under the plan carry no dividends or voting rights and when vested each right is convertible into one ordinary share.

Details of options over ordinary shares in the Company that were granted as remuneration to key management personnel are set out as follows:

Personnel	Number Granted	Value of option at grant date ($)	Number vested	Number lapsed	Exercise price $	Vesting and exercise date	Last exercise date
David Manning (Granted 18 November 2015)							
- A Class	500,000	0.07	-	-	0.550	20-Jul-16	19-Aug-16
- B Class	500,000	0.11	-	-	0.605	20-Jul-17	19-Aug-17
- C Class	500,000	0.13	-	-	0.630	20-Jul-18	19-Aug-18
Total	1,500,000	156,000					

No other options or performance rights were granted as remuneration during the financial year.

f. Other information

Performance rights and options held by key management personnel

The number of performance rights and options in the Company held during the 2016 reporting period by each of the Key Management Personnel of the Group, including their related parties, are set out below.

Personnel	Balance at start of year	Number at grant date	Number forfeited / lapsed	Number vested	Balance at end of year
Rights					
Phillipa Blakey	700,000	-	-	-	700,000
Matthew Mackay	280,000	-	-	-	280,000
Mark Hays	280,000	-	-	-	280,000
Options					
David Manning	-	1,500,000	-	-	1,500,000

Shares held by key management personnel

The number of ordinary shares in the Company during the 2016 reporting period held by each of the Group's Key Management Personnel, including their related parties, is set out below:

Personnel	Balance at start of year	Granted as remuneration	Received on exercise	Other changes	Held at end of reporting period
Stuart James	2,756,589	-	-	1,149,704	3,906,293
Craig Coleman	1,501,250	-	-	600,500	2,101,750
David Manning	-	-	-	1,500,000	1,500,000
Phillipa Blakey	-	-	-	13,638	13,638
Mark Hays	10,000	-	-	10,191	20,191

None of the shares included in the table above are held nominally by key management personnel.

End of audited remuneration report.

Environmental legislation
Pulse Health operations are not subject to a particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

Indemnities given and insurance premiums paid to auditors and officers
During the year, Pulse Health paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

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 the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

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

Non-audit services
During the year, BDO East Coast Partnership, the Company's auditor, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and

- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company, BDO East Coast Partnership, and its related practices for audit and non-audit services provided during the year are set out in Note 8 to the Financial Statements.

Auditor's independence declaration

The Auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 18 of this financial report and forms part of this Directors' Report.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Rounding of amounts

Pulse Health is a type of Company referred to in ASIC Legislative Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable), or in certain cases, to the nearest dollar under the option permitted in the class order.

Signed in accordance with a resolution of the Directors.

Stuart James
Director

31 August 2016

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Australia

DECLARATION OF INDEPENDENCE BY PAUL BULL TO THE DIRECTORS OF PULSE HEALTH LIMITED

As lead auditor of Pulse Health 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 Pulse Health Limited and the entities it controlled during the period.

Paul Bull
Partner

BDO East Coast Partnership

Sydney, 31 August 2016

Pulse Health Limited (Company) and its Board are committed to achieving and demonstrating the highest standards of corporate governance. As such, the Company and its Controlled Entities ('the Group') have adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's Corporate Governance Statement for the financial year ending 30 June 2016 is dated as at 30 June 2016 and was approved by the Board on 31 August 2016. The Corporate Governance Statement is available on Pulse Health Limited's website at http://pulsehealth.net.au/investor-information#corporategovernanceprinciples.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $'000	2015 $'000
Revenue	6	72,384	56,268
Other income	6	1,039	1,297
		73,423	57,565
Expenses			
Employee benefits expense	7	(39,775)	(30,698)
Occupancy expenses	7	(10,973)	(5,737)
Medical consumables and supplies		(9,203)	(5,517)
Medical contractors		(2,536)	(2,092)
Professional fees		(313)	(306)
Other expenses		(6,743)	(5,180)
Finance costs	7	(1,374)	(142)
Acquisition, development and integration costs		(5,148)	(1,681)
Depreciation and amortisation expense	7	(2,268)	(1,000)
Loss from continuing operations before income tax		(4,910)	5,212
Income tax benefit/(expense)	9(d)	1,045	(1,618)
Loss from continuing operations after income tax		(3,865)	3,594
Loss from discontinued operations		-	(1,047)
Loss for the year attributable to owners of the company		(3,865)	2,547
Total comprehensive income/(loss) attributable to owners of the company		(3,865)	2,547
Total comprehensive income/(loss) for the year attributable to ordinary equity holders of the company:			
From continuing operations		(3,865)	3,594
From discontinued operations		-	(1,047)
		(3,865)	2,547
Earnings per share			
Basic earnings/(loss) per share (cents per share)			
From continuing operations	21	(1.82)	2.19
From discontinued operations	21	-	(0.64)
Diluted earnings/(loss) per share (cents per share)			
From continuing operations	21	(1.82)	2.18
From discontinued operations	21	-	(0.63)

The above Consolidated Statement of Profit or Loss and other Comprehensive Income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	16,648	3,491
Trade and other receivables	11	12,904	17,878
Inventories	12	1,352	721
Current tax asset		398	-
Total Current Assets		31,302	22,090
NON CURRENT ASSETS			
Property, plant and equipment	13	23,560	10,824
Deferred tax assets	9(e)	3,716	2,148
Intangible assets	14	81,928	61,037
Total Non Current Assets		109,204	74,009
TOTAL ASSETS		140,506	96,099
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	10,471	7,707
Employee benefit liability	16	3,609	2,945
Borrowings	17	822	90
Current tax liability		-	1,180
Other liabilities	18	1,872	2,447
Total Current Liabilities		16,774	14,369
NON CURRENT LIABILITIES			
Borrowings	17	29,374	24,021
Deferred tax liabilities	9(f)	44	50
Employee benefit liability	16	527	558
Other liabilities	18	3,736	3,653
Total Non Current Liabilities		33,681	28,282
TOTAL LIABILITIES		50,455	42,651
NET ASSETS		**90,051**	**53,448**
EQUITY			
Contributed equity	19(a)	98,046	56,402
Share based payment reserve	19(c)	271	170
Accumulated losses		(8,266)	(3,124)
TOTAL EQUITY		**90,051**	**53,448**

The above Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Contributed Equity $'000	Share based reserve $'000	Accumulated losses $'000	Total Equity $'000
Balance as at 1 July 2015	56,402	170	(3,124)	53,448
Loss after income tax for the year	-	-	(3,865)	(3,865)
Total Comprehensive Income	**-**	**-**	**(3,865)**	**(3,865)**
Transactions with owners, in their capacity as owners				
Share-based payment expense	-	101	-	101
Contributions of equity	43,773	-	-	43,773
Capital raising costs	(2,561)	-	-	(2,561)
Dividends	-	-	(1,277)	(1,277)
Deferred tax asset on capital raising costs	432	-	-	432
Balance at 30 June 2016	**98,046**	**271**	**(8,266)**	**90,051**
Balance as at 1 July 2014	56,351	76	(4,353)	52,074
Profit after income tax for the year	-	-	2,547	2,547
Total Comprehensive Income	**-**	**-**	**2,547**	**2,547**
Transactions with owners, in their capacity as owners				
Share-based payment expense	-	94	-	94
Contributions of equity	181	-	-	181
Capital raising costs	(11)	-	-	(11)
Dividends	-	-	(1,318)	(1,318)
Deferred tax asset on capital raising costs	(119)	-	-	(119)
Balance at 30 June 2015	**56,402**	**170**	**(3,124)**	**53,448**

The above Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (incl GST)		71,034	59,116
Payment to suppliers and employees (incl GST)		(67,558)	(53,985)
		3,476	5,131
Income tax paid		(1,578)	(267)
Interest paid		(1,306)	(142)
Transaction costs relating to acquisition of businesses		(5,148)	(1,253)
Net cash inflow/(outflow) from operating activities	26(b)	(4,556)	3,469
Cash flow from investing activities			
Payments of deferred consideration		(2,176)	-
Payments for purchase of businesses (net of cash)	28	(18,611)	(27,700)
Proceeds from sale of subsidiary		-	375
Payments for plant and equipment		(11,926)	(2,412)
Proceeds from sale of property, plant & equipment		6,830	-
Payments for other intangible asset		(40)	-
Interest received		238	130
Net cash outflow from investing activities		(25,685)	(29,607)
Cash flows from financing activities			
Proceeds from the issue of shares		43,773	181
Share issue costs		(2,561)	(11)
Dividends paid		(1,277)	(1,318)
Proceeds from borrowings		3,950	24,000
Repayment of borrowings		(415)	(90)
Payment of borrowing costs		(72)	(140)
Net cash inflow from financing activities		43,398	22,622
Net increase/(decrease) in cash and cash equivalents		13,157	(3,516)
Cash and cash equivalents, beginning of the financial year		3,491	7,007
Cash and cash equivalents, at end of year	10(a)	16,648	3,491

The above Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

1. Nature of operations

Pulse Health Limited and subsidiaries' (the Group) principal activities include the operation, acquisition and development of specialist private hospitals and day surgeries.

2. General information and statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other interpretations of the Australian Accounting Standards Board ('AAAB'). These financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB). Pulse Health Limited is a for-profit entity for the purpose of preparing the financial statements.

Pulse Health Limited is the Group's ultimate parent company. Pulse Health Limited is a public company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Suite 4, Level 1, 175 Castlereagh Street Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 30 June 2016 were approved and authorised for issue by the Board of Directors on 31 August 2016.

3. Changes in accounting policies

3.1 New and revised standards that are effective for these financial statements

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period.

3.2 Accounting Standards issued but not yet effective that have not been adopted early by the Group

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard and its consequential amendments to other standards are applicable to annual reporting periods beginning on or after 1 January 2018. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, except where a change in fair value relates to an entity's own credit risk.

It is anticipated that the adoption of this standard in future periods will have no material financial impact on the financial statements of the Group.

AASB 15 Revenue from Contracts with Customers

This standard and its consequential amendments to other standards are applicable to annual reporting periods beginning on or after 1 January 2017. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, based on the performance obligations associated with the provision of those goods or services. For goods, the performance obligation is satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided.

The financial impact on the financial statements of the Group of adopting this standard in future periods is being assessed and is not expected to be significant.

AASB 16: Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. All leases are recognised as a right-to-use asset and liability, other than short-term leases of less than 12 months duration and leases for low-value assets. Depreciation of right-to-use assets is undertaken in accordance with AASB 116: Property, Plant and Equipment, with a corresponding unwinding of the liability in components of principal and interest. Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date.

Transitional provisions of AASB 16 will allow a lessee to either retrospectively apply the standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The Group will adopt this standard from 1 July 2019. The impact of its adoption on the financial statements is yet to be assessed.

4. Summary of accounting policies

4.1 Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as at 30 June 2016. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

4.3 Business combination

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

4.4 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars ($AUD), which is also the functional currency of the Parent Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.5 Segment reporting

The Group operates private hospitals as a single segment. In identifying its operating segments, management generally follows the Group's service lines, which represent the main services provided by the Group (see Note 1).

The measurement policies the Group uses for segment reporting under AASB 8 are the same as those used in its financial statements.

Corporate assets which are not directly attributable to the business activities of the operating segment are not allocated to the segment. In the financial periods under review, this primarily applies to the Group's corporate head office.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

4.6 Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

(i) Patient/Client Revenues

Revenue from services provided is recognised on the date the service was provided to the patient or client.

(ii) Interest

Interest income and expenses are reported on accrual basis using effective interest method.

4.7 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

4.9 Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of profit or loss and other comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale (see also Note 4.19).

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

4.10 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See Note 4.3 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 4.14 for a description of impairment testing procedures.

4.11 Other intangible assets

Right to operate Hospitals

Intangible assets 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. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The intangible asset ‘right to operate’, which was originally acquired through the Westmead Operating Assets lease agreement had been assessed as having a finite life and amortised over the period of the lease. Consequent to the extinguishment of the Westmead Operating Assets lease in May 2013, the intangible asset has been assessed as having indefinite life and tested for impairment at the end of each reporting period or earlier if an impairment indicator exists. The recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

4.12 Property, plant and equipment

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the Statement of Profit or Loss and Other Comprehensive Income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Medical and other equipment

Medical equipment and other equipment (comprising fittings and furniture) are initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management. Medical equipment and other equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of buildings, medical and other equipment. The following useful lives are applied:

- buildings: 25-50 years
- medical equipment: 2-5 years
- other equipment: 3-12 years

In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

4.13 Leased assets

Finance leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

See Note 4.12 for the depreciation methods and useful lives for assets held under finance lease. The corresponding finance lease liability is reduced by lease payments net of finance charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4.14 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.15 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

The Group's financial assets consist of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities included borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss (FVTPL), that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

4.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Inventories include medical and food supplies to be consumed in providing future patient services.

4.17 Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, the Australian Taxation Office and other fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Pulse Health Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

4.18 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.19 Non-current assets and liabilities classified as held for sale and discontinued operations

When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within twelve months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position. Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. Once classified as 'held for sale', the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale or re-measurement of discontinued operations is presented as part of a single line item, profit or loss from discontinued operations (see Note 4.9).

4.20 Equity, reserves and dividend payments

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

All transactions with owners of the parent are recorded separately within equity.

4.21 Short-term employee benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries and non-monetary compensation. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The Group's liabilities for annual leave and long service leave are included in other long term benefits as they 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 measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period, irrespective of when the actual settlement is expected to take place.

4.22 Share based employee remuneration

The Group operates equity-settled share based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share based payment are measured at their fair values. Where employees are rewarded using share based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

4.23 Provisions, contingent liabilities and contingent assets

Provisions for legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote in which case no liability is recognised.

4.24 Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

4.25 Rounding of amounts

The Parent Company has applied the relief available to it under ASIC Legislative Instrument 2016/191 and accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest $1,000, or in certain cases, the nearest dollar.

5. Significant management judgement in applying accounting policies

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 4.14).

Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination (see Note 4.3). Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability (see Note 28).

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value of financial instruments

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 32).

6. Revenue

	2016 $'000	2015 $'000
From continuing operations		
Operating income	72,146	56,138
Interest income	238	130
Total revenue	72,384	56,268
Other income		
Gain on re-measurement of deferred consideration	1,039	-
Profit on sale and lease back of hospital freehold	-	1,297
Total other income	1,039	1,297

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7. Profit from continuing operations before income tax expense

	2016 $'000	2015 $'000
The profit and loss from continuing operations before income tax has been determined after charging the following		
Depreciation and amortisation expense		
Depreciation of buildings, plant and equipment	2,201	943
Amortisation of intangible assets	67	57
	2,268	1,000
Occupancy expenses		
Rent paid/payable	9,276	4,795
Property outgoings	1,697	942
	10,973	5,737
Employee benefits expenses		
Salaries and wages and on-costs	36,725	28,367
Superannuation paid/payable for the year	3,012	2,237
Share based payments expense	38	94
	39,775	30,698
Interest expense and other finance costs	1,374	142

8. Auditor's remuneration

	2016 $'000	2015 $'000
Auditor of the parent entity - BDO East Coast Partnership		
Audit and review of the Financial Report	213	189
Other assurance services	36	32
Preparation of tax returns, other tax services	12	53
	261	274

9. Income tax expense

	2016 $'000	2015 $'000
(a) Reconciliation of income tax expense to prima facie		
Profit/(loss) from continuing operations before tax	(4,910)	5,212
Loss from discontinuing operations before tax	-	(1,371)
	(4,910)	3,841
Income tax credit calculated at 30% (2015: 30%)	(1,473)	1,152
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payment expense	11	28
Other non-deductible expenses	434	236
Over provision from prior years	(17)	-
Recognition of prior years tax losses	-	(123)
Aggregate income tax expense	(1,045)	1,294

	2016 $'000	2015 $'000
(b) Unrecognised deferred tax assets		
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	987	987
Potential tax benefit at 30%	296	296

The deferred tax assets on account of tax losses not brought to account includes amounts subject to an available fraction in accordance with tax consolidation legislation, the benefits of which will only be realised if the conditions for deductibility set out in Note 4.17 occur. As such, the recoupment of these losses is restricted.

	2016 $'000	2015 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net loss but directly credited to equity		
Net deferred tax – credited/(debited) directly to equity	(432)	119

	2016 $'000	2015 $'000
(d) Income tax components		
(Increase)/Decrease in deferred tax assets	(1,034)	486
(Increase)/Decrease in deferred tax liability	6	(46)
Current tax expense	(17)	854
Income tax expense	(1,045)	1,294
Income tax expense/(credit) is attributable to:		
Continuing operations	(1,045)	1,618
Discontinuing operation	-	(324)
Aggregate income tax expense	(1,045)	1,294

	2016 $'000	2015 $'000
(e) Deferred tax assets		
The balances comprise temporary differences attributable to:		
Tax losses	634	342
Employee benefits	1,241	1,051
Deferred income	95	145
Accruals	138	148
Others	882	168
Items charged directly to equity	726	294
Total	3,716	2,148

	2016 $'000	2015 $'000
(f) Deferred tax liabilities		
The balances comprise temporary differences attributable to:		
Finance lease assets	31	22
Prepayments	13	28
Total	44	50

	2016 $'000	2015 $'000
(g) Movements in deferred tax asset		
Opening Balance	2,148	2,753
Amounts recognised in profit or loss:		
Employee benefits	88	85
Deferred income	(50)	(420)
Accrued expenses	(11)	(75)
Provision for impairment of doubtful debt	115	-
Tax losses	292	(76)
Blackhole expenditure	661	132
Other	(60)	(197)
Additions through business combination	101	65
Amounts recognised in equity:		
Capital raising costs	432	(119)
Closing Balance	3,716	2,148

	2016 $'000	2015 $'000
(h) Movements in deferred tax liability		
Opening Balance	50	4
Amounts recognised in profit or loss:		
Finance leases	9	22
Prepayments	(15)	24
Closing Balance	44	50

10. Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank and on hand (i)	16,477	3,365
Restricted cash (ii)	171	126
Total cash and cash equivalents	16,648	3,491

(i) On 1 July 2016, $15.4m was used to fund the upfront consideration of Boulcott Hospital, New Zealand . Refer Note 33.

(ii) Restricted cash relates to cash received from government funding.

(a) Reconciliation to cash at bank and on hand

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	16,648	3,491
Balance as per statement of cash flows	16,648	3,491

(b) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 31.

11. Trade and other receivables

	2016 $'000	2015 $'000
Current		
Trade debtors	9,388	7,471
Less: Provision for impairment of receivables	(414)	-
	8,974	7,471
Sundry debtors	1,154	7,121
Prepayments	488	417
Accrued income	2,288	2,869
Total current trade and other receivables	12,904	17,878

Impaired trade receivables

All of the Group's trade and other receivables have been reviewed for indicators of impairment. One trade receivable was found to be impaired and a provision for impairment of $399,000 (2015: $nil has been recorded accordingly within other expenses. The impaired trade receivable relates to the provision of surgical services under a subcontract arrangement with a company which subsequently experienced financial difficulty. A repayment plan is in place for the full outstanding amount and interest.

	2016 $'000	2015 $'000
Reconciliation of provision for impairment of receivables		
Opening balance	-	-
Impairment on acquisition of business	(15)	-
Impairment provision recognised	(399)	-
Closing balance	(414)	-

Past due but not impaired

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. At 30 June, the Group has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. As at 30 June 2016, the aging analysis of trade receivables is as follows:

	2016 $'000	2015 $'000
Current		
0 to 30 days	6,372	6,268
30 to 60 days	1,559	552
60 to 90 days	499	367
Greater than 90 days	958	284
	9,388	7,471

Other receivables

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be recovered when due. The Group does not hold any collateral in relation to these receivables.

Fair value and credit risk

Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at reporting date is the carrying amount of each class of receivable mentioned above. Also refer to note 31 for more information on the credit quality of the Group's trade receivables.

12. Inventories

	2016 $'000	2015 $'000
Current		
On hand, available for use	1,352	721
Total current inventories	1,352	721

13. Property, plant and equipment

	Land and buildings $'000	Leasehold improvement $'000	Leased assets $'000	Plant and equipment $'000	Total $'000
Year ended 30 June 2016					
Opening net book amount	348	4,988	-	5,488	10,824
Additions by way of business combinations (Note 28)	-	-	-	1,704	1,704
Additions	-	3,852	1,477	8,074	13,403
Disposals	(3)	-	-	-	(3)
Depreciation/amortisation charge	-	(487)	(171)	(1,710)	(2,368)
Closing net book amount	345	8,353	1,306	13,556	23,560
At 30 June 2016					
Cost	345	9,303	1,550	21,000	32,198
Accumulated depreciation	-	(950)	(244)	(7,444)	(8,638)
Net book amount	345	8,353	1,306	13,556	23,560
Year ended 30 June 2015					
Opening net book amount	5,756	2,483	-	5,202	13,441
Additions by way of business combinations (Note 28)	-	1,953	-	388	2,341
Additions	-	788	-	1,625	2,413
Disposals	(5,355)	-	-	(1,073)	(6,428)
Depreciation/amortisation charge	(53)	(236)	-	(654)	(943)
Closing net book amount	348	4,988	-	5,488	10,824
At 30 June 2015					
Cost	351	5,451	73	12,943	18,818
Accumulated depreciation	(3)	(463)	(73)	(7,455)	(7,994)
Net book amount	348	4,988	-	5,488	10,824

Depreciation charged include depreciation set off against deferred income for assets acquired through Government grants

Non-current assets pledged as security

Refer to Note 17 for information on non-current assets pledged as security by the consolidated entity.

14. Intangible assets

	Goodwill $'000	Right to operate hospital $'000	Software $'000	Total $'000
At 30 June 2016				
Cost	74,425	13,249	276	87,950
Accumulated amortisation	-	(1,977)	(125)	(2,102)
Accumulated impairments	(3,920)	-	-	(3,920)
Net book amount	70,505	11,272	151	81,928
Reconciliation of opening and closing net book amount - year ended 30 June 2016				
Opening net book amount	49,588	11,272	177	61,037
Additions	-	-	40	40
Acquired though business combinations (note 28)	20,918	-	-	20,918
Amortisation charge	-	-	(67)	(67)
Disposal	-	-	-	-
Closing net book amount	70,506	11,272	150	81,928
At 30 June 2015				
Cost	53,508	13,249	236	66,993
Accumulated amortisation	-	(1,977)	(59)	(2,036)
Accumulated Impairments	(3,920)	-	-	(3,920)
Net book amount	49,588	11,272	177	61,037
Reconciliation of opening and closing net book amount - year ended 30 June 2015				
Opening net book amount	20,137	11,272	226	31,635
Additions	-	-	10	10
Acquired though business combinations (note 28)	30,514	-	-	30,514
Amortisation charge	-	-	(59)	(59)
Disposal	(1,063)	-	-	(1,063)
Closing net book amount	49,588	11,272	177	61,037

14.1 Impairment testing

For the purpose of annual impairment testing goodwill and the right to operate hospital are allocated to the Private Hospital Division cash-generating units, which is the unit expected to benefit from the synergies of the business combinations in which the goodwill arises.

	2016 $'000	2015 $'000
Goodwill	70,506	49,588
Right to operate hospital	11,272	11,272
	81,778	60,860

The recoverable amount of the Group's goodwill and right to operate hospital has been determined by a value-in-use calculation using a discounted cash flow model, based on a one year projection period approved by management and extrapolated for a further four years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the private hospital division:

(a) 12.2% (2015: 13.0%) pre-tax discount rate;
(b) 3% (2015: 3%) per annum projected revenue growth rate;

The discount rate of 12.2% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the hospital division, the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 3% revenue growth rate is prudent and justified, based on the market conditions.

There were no other key assumptions for the private hospital division.

Results of the impairment tests conclude that value in use calculations are not sensitive to the above assumptions.

Apart from the considerations described above in determining the value-in-use of the cash generating unit, management is not currently aware of any other probable changes that would necessitate a material change in the recoverable amount of the Private Hospital Division.

15. Trade and other payables

	2016 $'000	2015 $'000
Current		
Trade creditors and accruals	9,667	5,783
Other creditors	804	1,924
Total current trade and other payables	10,471	7,707

16. Employee benefit liability

	2016 $'000	2015 $'000
Current		
Annual leave	3,466	2,945
Long service lease	143	-
	3,609	2,945

	2016 $'000	2015 $'000
Non current		
Long service leave	527	558
	527	558

17. Borrowings

	2016 $'000	2015 $'000
Current		
Secured		
Finance leases	822	90
Total secured current borrowings	822	90

	2016 $'000	2015 $'000
Non current		
Secured		
Finance lease	1,560	153
Bank debt	27,814	23,868
Total non current borrowings	29,374	24,021

Assets pledged as security

A general security interest has been registered over all the assets and undertakings of the Group. The general security interest is supported by a cross deed of guarantee and indemnity provided by all entities in the consolidated entity in favour of the bank.

Covenants imposed by the bank include a fixed charge cover ratio and leverage ratio. The Group complied with all the covenants during the year.

Unused working capital and asset finance facility available at reporting date are:

	2016 $'000	2015 $'000
Bank overdraft	3,500	6,000
Asset finance facility	2,550	6,500
Bank purchasing card	60	60
	6,110	12,560

18. Other liabilities

	2016 $'000	2015 $'000
Current		
Government grants	3	3
Deferred income[(a)]	169	2,176
Deferred consideration[(b)]	1,700	268
Total other current liabilities	1,872	2,447

	2016 $'000	2015 $'000
Non current		
Deferred income[(a)]	148	214
Deferred consideration[(b)]	3,588	3,439
Total non current other liabilities	3,736	3,653

(a) Represents assets acquired with Government Grant monies. The deferred income is amortised against the useful life of the acquired assets through reduced depreciation charges.

(b) Additional deferred consideration of $3.9m was assumed on 1 July 2016 with the acquisition of Boulcott Hospital, New Zealand. Refer note 33.

19. Issued capital and share based reserve

	2016 $'000	2015 $'000
(a) Issued and paid-up capital		
257,079,905 (2015: 164,221,202) fully paid ordinary shares	98,046	56,402

(b) Movement in ordinary share capital	**No. of Shares**	**$'000**
Balance - 30 June 2014	**163,869,479**	**56,351**
Issue of shares	351,723	181
Share issue transaction costs, net of tax	-	(130)
Balance - 30 June 2015	**164,221,202**	**56,402**
Issue of shares	92,858,703	43,773
Share issue transaction costs, net of tax	-	(2,129)
Balance - 30 June 2016	**257,079,905**	**98,046**

(c) Share based payments reserve	**2016 $'000**	**2015 $'000**
Balance at beginning of year	170	76
Add / (deduct):		
Issue of options under the LTI Scheme	101	94
Balance at end of year	271	170

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(e) Share based payments reserve

The share-based payments reserve is used to recognise:

* The grant date fair value of options issued to executives but not exercised
* The grant date fair value of shares issued to executives
* The grant date fair value of options issued to suppliers but not exercised

(f) Capital management policies and procedures

The Group's capital management objectives are to:

- ensure the Group's ability to continue as a going concern; and
- provide an adequate return to shareholders.

The Group monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented on the face of the statement of financial position.

The Group's goal in capital management is to maintain a capital-to-overall financing ratio in line with the Group's bank finance covenants.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. 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.

20. Dividends

	2016		2015	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
Final dividend	0.3	500	0.50	819
Interim dividend	0.3	777	0.30	492
		1,277		1,311

Fully franked to 30% (Prior year: 30%)

Franking Account balance as at 30 June

	2016 $'000	2015 $'000
Franking account balance as at 30 June	1,499	475
Impact on franking account balance of dividends not recognised	-	(211)
Impact on franking account balance of income tax refundable at 30 June	(398)	1,181
Adjusted franking account balance	1,101	1,445

21. Earnings per share (EPS)

	2016 Cents per share	2015 Cents per share
Basic earnings/(loss) per share		
From continuing operations	(1.82)	2.19
From discontinued operations	-	(0.64)
Diluted earnings/(loss) per share		
From continuing operations	(1.82)	2.18
From discontinued operations	-	(0.63)

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2016 $'000	2015 $'000
Net profit/(loss) after tax and used in calculation of basic & diluted EPS	(3,865)	2,547

	2016 No.	2015 No.
Weighted average number of ordinary shares used in calculation of basic EPS	212,872,653	163,956,205
Potential ordinary shares underlying the performance rights and options	2,067,377	1,123,644
Weighted average number of ordinary shares used in calculation of diluted EPS	214,940,030	165,079,849

22. Segment reporting

Management currently identifies the Group's single service line ('Private Hospitals') as its operating segment (see Note 4.5). The operating segment is monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

Segment information for the reporting period is as follows:

Year ended 30 June 2016	Private Hospital Segment		Unallocated corporate overhead	Total
	Established	Greenfield		
	$ 000's	$ 000's	$ 000's	$ 000's
Revenues				
From external customers	68,892	3,254	-	**72,146**
Other revenue	-	-	238	238
Segment revenues	68,892	3,254	238	72,384
Underlying EBITDA	12,096	(6,074)	(3,021)	**3,001**
Depreciation and amortisation	(1,190)	(950)	(128)	(2,268)
Segment result (EBIT)	10,906	(7,024)	(3,148)	**734**
Finance costs (net)				(1,136)
Net profit/(loss) before tax (underlying)				**(402)**
Corporate, acquisition and integration costs				(5,148)
Deferred consideration adjustment				1,039
Provision for impairment of receivable				(399)
Net profit/(loss) before tax				**(4,910)**
Tax expense				1,045
Net profit/(loss) after tax				**(3,865)**

Year ended 30 June 2015	Private Hospital Segment		Unallocated Corporate Overhead	Total
	Established	Greenfield		
	$ 000's	$ 000's	$ 000's	$ 000's
Revenues				
From external customers	54,352	-	-	**54,352**
From other segments	12	-	(12)	**-**
Other revenue	1,786	-	130	**1,916**
Segment revenues	56,150	-	118	**56,268**
Underlying EBITDA	9,094	-	(2,486)	**6,608**
Depreciation and amortisation	(896)	-	(104)	(1,000)
Segment result (EBIT)	8,198	-	(2,590)	**5,608**
Finance costs (net)				(12)
Net profit before tax (underlying)				**5,596**
Corporate, acquisition and integration costs				(1,681)
Profit on sale of freehold				1,297
Loss from discontinued business				(1,047)
Tax expense				(1,618)
Net profit after tax				**2,547**

Management assesses the performance of the operating segment based on a measure of underlying EBITDA. This measurement basis excludes significant expenditure from the operating segments such as acquisition, transaction and integration costs, effects of equity-settled share based payments, corporate office costs, finance costs, depreciation and amortisation and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

Segment revenues are derived from provision of medical and healthcare services at private hospitals and day surgeries.

Reportable segments' assets are reconciled to total assets as follows:

	2016 $'000	2015 $'000
Segment assets		
Private Hospitals	119,185	89,830
Corporate and unallocated:		
Cash and equivalents	16,648	3,491
Trade and other receivables	201	224
Current tax asset	398	
Deferred tax asset	3,716	2,148
Property, plant and equipment	207	228
Other non current assets	151	178
Total assets as per the balance sheet	**140,506**	**96,099**

No segment liabilities are disclosed because there is no measure of segment liabilities regularly reported to the chief operating decision maker.

The Group is domiciled in Australia. The amount of its revenue from continuing operations from external customers in Australia is $72,384,000 (2015: $56,268,000), and the total revenue from external customers in other countries is $0 (2015: $0).

The Group does not have significant reliance on a single external customer.

23. Controlled entities

Name of Entity	Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
Parent Entity			
Pulse Health Limited (i)	Australia		
Controlled Entities			
Pulse Health Hospitals Pty Ltd (ii)	Australia	100	100
Pulse Health Services Pty Ltd	Australia	100	100
Pulse Health Aged Care Pty Ltd	Australia	100	100
Pulse Health Nursing Pty Ltd	Australia	100	100
Bega Valley Private Hospital Pty Ltd	Australia	100	100
Care Call Pty Ltd	Australia	100	100
Forster Private Hospital Pty Ltd	Australia	100	100
Gold Coast Surgical Hospital Pty Ltd	Australia	100	100
Gympie Private Hospital Pty Ltd	Australia	100	100
KPH Hospital Pty Ltd	Australia	100	100
NMP Hospital Pty Ltd	Australia	100	100
Recruitment Specialist Group Pty Ltd	Australia	100	100
The Hills Clinic Pty Ltd (ii)	Australia	100	100
Westmead Rehabilitation Hospital Pty Ltd (ii)	Australia	100	100
Zenitas Holdings Pty Ltd (iii)	Australia	100	-
Zenitas ALT Pty Ltd	Australia	100	-
Zenitas WER Pty Ltd	Australia	100	-
Zenitas SYD Pty Ltd	Australia	100	-
Healthwoods Day Surgery Pty Ltd	Australia	100	-
Zenitas WPH Pty Ltd	Australia	100	-
Zenitas WDS Pty Ltd	Australia	100	-
Pulse Health NZ Ltd	New Zealand	100	-
Boulcott Pulse Health Ltd	New Zealand	100	-

(i) Pulse Health Limited is the head entity within the Closed Group
(ii) These companies are members of the Closed Group
(iii) This company became a member of the Closed Group on 30 June 2016

24. Commitments

	2016	2015
Leasing commitments - operating	**$'000**	**$'000**
Committed at the reporting date but not recognised as liabilities payable:		
- with one year	8,247	6,948
- one to five years	36,062	33,137
- more than five years	89,130	93,417
	133,439	133,502

The Group leases various hospitals and offices under non-cancellable operating leases expiring from within one to twenty-three years with, in most cases, options to extend. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	2016	2015
	$'000	**$'000**
Leasing commitments - finance		
Committed at the reporting date and recognised as liabilities payable:		
- with one year	918	90
- one to five years	1,661	153
- more than five years	-	-
	2,579	243
Future finance charges	(197)	-
Net commitment recognised as liabilities	2,382	243
Representing		
- Current lease liability (Note 17)	822	90
- Non current lease liability (Note 17)	1,560	153
	2,382	243

	2016	2015
Capital commitments	**$'000**	**$'000**
Committed at the reporting date but not recognised as liabilities payable:		
Leasehold improvements	-	3,150
Plant and equipment	-	3,392
	-	6,542

25. Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 23.

(b) Other related parties

On commercial terms and conditions unless otherwise stated, during the year the Company paid:

- Franks & Associates Pty Ltd, a company associated with Mr David Franks, to perform Company Secretarial and Finance functions at an hourly rate of $210 (excluding GST). The total amount of $119,260 (excluding GST) was incurred during the year.

- Viburnum Funds Pty Ltd, a company associated with Mr Craig Coleman, which entered into an direct arrangement with financial advisor Allier Capital, to provide subcontract advisory services on Pulse's capital and acquisition activities. All payments to Allier Capital were on commercial terms and direct and indirect payments to Viburnum Funds under the subcontract arrangement totalled $488,668.

26. Notes to the Consolidated Statement of Cash Flows

	2016 $'000	2015 $'000
(a) Reconciliation of cash and cash equivalents		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents (Note 10)	16,648	3,491
(b) Reconciliation of net cash flows from operating activities after income tax		
Loss after income tax	(3,865)	2,547
Adjustments for:		
Depreciation and amortisation	2,268	1,000
Share based payments	101	94
Deferred consideration adjustment	(1,039)	-
Interest income	(238)	(130)
Net changes in working capital:		
Change in trade and other receivables	(1,554)	(3,160)
Change in inventories	(427)	125
Change in deferred tax assets	(1,034)	605
Change in other operating assets	2	(2)
Change in trade and other payables	2,447	2,240
Change in current tax liability	(1,578)	475
Change in deferred tax liabilities	6	46
Change in provisions	295	(187)
Change in other operating liabilities	60	(184)
Net cash from operating activities	(4,556)	3,469

27. Parent entity disclosures

Information relating to Pulse Health Limited	2016 $'000	2015 $'000
Current assets	72,405	39,032
Total assets	**104,669**	**69,172**
Current Liabilities	2,550	5,021
Total Liabilities	**31,763**	**32,411**
Issued capital	98,046	56,402
Share based payment reserve	271	170
Accumulated losses	(25,411)	(19,811)
Total shareholders' equity	**72,906**	**36,761**
Loss of the parent entity	(6,195)	(4,382)
Total comprehensive loss of the parent entity	(6,195)	(4,382)

28. Business combinations

2016

Acquisition of Zenitas Holdings Pty Ltd
On 15 January 2016, the Group acquired 100% of the ordinary shares of Zenitas Holdings Pty Ltd (Zenitas), a company that had executed contracts for the purchase of five day surgery businesses and one private hospital with the settlement subject to prescribed conditions precedent. Pulse subsequently completed on the acquisition of four of the day surgery businesses. The acquisition strengthens Pulse's position as a niche operator of specialist hospitals and day surgeries.

Details of the business combination are as follows:

	$'000
Provisional fair value recognised on acquisition	
Amount settled in cash	18,746
Fair value of contingent consideration	2,888
Total	21,634
Recognised amounts of identifiable assets	
Assets	
Property, plant and equipment	1,704
Trade and other receivables	305
Cash and cash equivalents	135
Deferred tax asset	101
Inventories	203
	2,448
Liabilities	
Provisions	(338)
Trade and other payables	(318)
Lease liabilities	(1,076)
	(1,732)
Total identifiable net assets at fair value	716
Goodwill arising on acquisition	20,918
Consideration transfer settled in cash	18,746
Cash and cash equivalents acquired	(135)
Net cash outflow in acquisition	18,611
Acquisition costs charged to expenses	2,393
Net cash paid relating to acquisition	21,004

At 30 June 2016 the fair values of the assets and liabilities acquired are provisional and pending final valuations. On completion of the final valuations the balances for the acquisition may be revised in accordance with applicable Australian Accounting Standards.

The purchase agreements included an additional un-capped consideration based on a multiple of EBITDA growth in FY16 and FY17 over FY15 (base year).

The $2,888,000 fair value of the contingent consideration liability initially recognised represents the present value of the Group's probability-weighted estimate of the cash outflow. It reflects management's estimate of growth in earnings over the base year and is discounted using an interest rate of 4.1%.

As at 30 June 2016, there have been no changes in the estimate of the probable cash outflow.

Acquisition related costs amounting to $2,393,000 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income, as part of acquisition, development and integration costs.

Goodwill

Goodwill of $20,918,000 is primarily related to growth expectations, expected future profitability, and expected cost synergies. Goodwill has been allocated to the Group's Private Hospital Division at 30 June 2016. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

Zenitas' contribution to the group results

Zenitas derived revenue of $3.04m and a profit before tax of $586,000 for the period from 15 January to the reporting date. It is impractical to disclose revenue and profit contributions from the acquisition as though it had been acquired on 1 July 2015 as the business was operated in conjunction with other business operations that did not form part of the acquisition.

2015

Acquisition of The Hills Clinic Pty Ltd
On 5 May 2015, the Group acquired 100% of the ordinary shares of The Hills Clinic Pty Ltd (The Hills Clinic), a Sydney based specialist mental health hospital. The acquisition represents the Group's beachhead into the attractive mental health market and enhances the Group's positon as a niche operator of specialist hospitals and surgery centres.

Details of the business combination are as follows:

	$'000
Fair value of consideration transferred	
Amount settled in cash	27,700
Fair value of contingent consideration	5,615
Total	33,315
Recognised amounts of identifiable assets	
Property, plant and equipment	2,341
Other non-current assets	65
Total non-current assets	2,406
Trade and other receivables	1,470
Cash and cash equivalents	15
Other current assets	80
Total current assets	1,565
Provisions	(226)
Trade and other payables	(944)
Total current liabilities	(1,170)
Identifiable net assets	2,801
Goodwill on acquisition	30,514
Consideration transfer settled in cash	27,700
Cash and cash equivalents acquired	(15)
Net cash outflow in acquisition	27,685
Acquisition costs charged to expenses	1,253
Net cash paid relating to acquisition	28,938

Consideration transferred
The acquisition of The Hills Clinic was settled in cash of $27,700,000.

The purchase agreement included an additional consideration of $5,900,000, payable only if the total patient revenues of The Hills Clinic for 2015 and 2016 exceed revenue targets agreed in the share purchase agreement. The additional consideration will be paid in August 2015 and August 2016. The additional consideration payments are subject to a roll-forward mechanism such that any unpaid portion of the aggregate of the first earn-out payment and second earn-out payment remain payable through to FY17, then subject to achievement of the FY17 revenue target and payable in August 2017.

The $5,615,000 fair value of the contingent consideration liability initially recognised represents the present value of the Group's probability-weighted estimate of the cash outflow. It reflects management's estimate of a 100% probability that the targets will be achieved based on the current momentum in the business and is discounted using an interest rate of 4.1%.

Acquisition and integration related costs amounting to $1,302,000 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income, as part of acquisition, development and integration costs.

Goodwill

Goodwill of $30,514,000 is primarily related to growth expectations, expected future profitability, and expected cost synergies. The Hills Clinic Goodwill has been allocated to cash-generating units at 30 June 2015. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

The Hills Clinic's contribution to the group results

The Hills Clinic derived revenue of $1.97m and a profit before tax of $568,000 for the 56 days from 5 May 2015 to the reporting date. If The Hills Clinic had been acquired on 1 July 2014 revenue for the Group for 2015 would have been $66.3m, and profit before tax for the year would have increased by $2.79m.

29. Key management personnel disclosures

Key management of the Group are the executive members of the Pulse Health Limited Board of Directors and senior executives. Key Management Personnel remuneration includes the following expenses:

	2016	2015
	$	$
Short-term employee benefits	1,308,504	1,067,375
Post-employment benefits	63,496	62,909
Long-term benefits	17,510	27,595
Termination benefits	-	-
Share-based payments	101,485	93,510
	1,490,995	1,251,389

30. Share based payments

2016

Options over ordinary shares in the Company that were granted as remuneration to key management personnel are set out as follows:

Personnel	Number granted	Value of option at grant date ($)	Number vested	Number lapsed	Exercise price $	Vesting and exercise date	Last exercise date
David Manning (Granted 18 November 2015)							
- A Class	500,000	0.07	-	-	0.550	20-Jul-16	19-Aug-16
- B Class	500,000	0.11	-	-	0.605	20-Jul-17	19-Aug-17
- C Class	500,000	0.13	-	-	0.630	20-Jul-18	19-Aug-18
Total	1,500,000	156,000					

No performance rights were issued during the year.

2015

On 5 December 2014 the Company issued 315,000 performance rights to executives under a performance right plan established by the Company. The Company may, at the discretion of the Remuneration Committee, grant options or rights over ordinary shares in the company to certain key management personnel.

The rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Remuneration Committee.

The performance rights carry neither rights to dividends nor voting rights and will vest if certain conditions, as defined in the program, are met. Vesting is based in the weighted average price of Pulse Health Limited shares, and ongoing employment at the agreed vesting periods.

The following table summarises the performance rights that were granted during the year:

Performance rights series	Number of performance rights	Class of shares	Grant date	Performance period end date	Grant date fair value
Tranche 4	315,000	Ordinary	05/12/2014	31/12/2017	$0.84

For the performance rights issued during the current financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair vale at grant date
05/12/2014	31/12/2017	$0.40	-nil-	45%	-nil-	3.0%	$0.14

31. Financial risk instruments and fair value measurement

The Group's activities expose it to a variety of financial risk: interest rate risk (market risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk.

The Group's financial instruments consist mainly of deposits and loans with banks, accounts receivable and payable, loans to and from subsidiaries and leases.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value.

Historically, interest rate risk is managed with a mixture of fixed and floating rate debt and hedging. It is the policy of the Group to assess each circumstance when taking on debt.

As at the reporting date, the Group had the following borrowings outstanding:

	30 June 2016		**30 June 2015**	
	Weighted average interest rate (%)	Balance $'000	Weighted average interest rate (%)	Balance $000's
Bank loans - variable	4.1	27,950	4.095	24,000
Finance leases - fixed	5.3	2,382	-	-

The Group's bank loans are interest only payment loans. Quarterly cash outlays of approximately $290,000 (2015: $250,000) per quarter are required to service the interest payments. An official increase/decrease in interest rates of 100 (2015: 100) basis points would have an adverse/favourable effect on profit before tax of $280,000 (2015: $50,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. Credit risk is managed on a Group basis.

The average credit period on sale of rendering healthcare services is approximately 45 days, but is variable depending on the category of services provided. No interest is charged on overdue debtors. An allowance is made for any estimated irrecoverable trade receivable arising from past sale of rendering of services.

The credit risk on financial assets and liabilities which have been recognised on the Statement of Financial Position is the carrying amount, net of any provision for doubtful debts. The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

Price risk

The Group is not exposed to any significant price risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecasted cashflows and matching the maturity profiles of financial assets and liabilities. It also ensures that adequate unutilised borrowing facilities are maintained.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2016	Less than 6 months $'000	6 – 12 months $'000	1-5 years $'000	Over 5 years $'000	Total contractual cashflows $'000	Carrying amount of liabilities $'000
Consolidated Financial						
Trade & other payables	10,471	-	-	-	10,471	10,471
Borrowings	572	572	29,190	-	30,334	27,950
Current tax payable	-	-	-	-	-	-
Deferred consideration	1,700	-	3,700	-	5,400	5,288
Finance leases	479	439	1,661	-	2,579	2,382
	13,222	1,011	34,551	-	48,784	46,091

At 30 June 2015	Less than 6 months $'000	6 – 12 months $'000	1-5 years $'000	Over 5 years $'000	Total contractual cashflows $'000	Carrying amount of liabilities $'000
Consolidated Financial						
Trade & other payables	7,707	-	-	-	7,707	7,707
Borrowings	491	491	26,048	-	27,030	24,000
Current tax payable	1,181	-	-	-	1,181	1,181
Deferred consideration	2,176	-	3,600	-	5,776	5,615
Finance leases	45	45	153	-	243	243
	11,600	536	29,801	-	41,937	38,746

Fair value estimation and measurement hierarchy

The financial assets and liabilities included in the current assets and liabilities in the Statement of Financial Position are carried at amounts that approximate net fair values. As at reporting date there were no financial assets and liabilities recognised in the Statement of Financial Position using fair value measurements except the deferred consideration referred to in Note 32.

32. Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- 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 following table shows the levels within the hierarchy of financial liabilities measured at fair value on a recurring basis at 30 June 2016 and 30 June 2015:

	2016 $'000 Level 3	2015 $'000 Level 3
Financial Liabilities		
Contingent consideration payable	5,288	5,615
Total liabilities	5,288	5,615

Valuation techniques for fair value measurements categorised within level 3

The fair value of contingent consideration related to the acquisition of The Hills Clinic Pty Ltd in 2015 and Zenitas Holdings Pty Ltd in 2016 (see Note 28) is estimated using a present value technique. The $5,288,000 fair value is estimated by probability-weighting the estimated future cash outflows, adjusting for risk and discounting at 4.1%. The probability-weighted cash outflows before discounting is $5,400,000 and reflects management's estimate of the likely deferred consideration payable. The discount rate used is 4.1%, based on the Group's estimated incremental borrowing rate for similar financial liabilities at the reporting date.

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

	2016 $'000	2015 $'000
Contingent Consideration		
Balance at 1 July 2015	5,615	-
Acquired through business combination	2,888	5,615
Contingent consideration paid	(2,176)	-
Revaluation recognised in profit or loss as Other income	(1,039)	-
Balance as 30 June 2016	5,288	5,615

33. Events subsequent to balance date

On 1 July 2016 the Company completed the acquisition of 100% of the assets of the Boulcott Hospital in Wellington, New Zealand. Boulcott Hospital is a specialised surgical hospital and represents the Group's beachhead into the New Zealand private hospital market. Upfront consideration was NZ$16.0m and contingent consideration is NZ$4.0m. The fair values of the assets and liabilities acquired are provisional and pending final valuations. The upfront consideration was funded from cash on hand.

	AUD $'000
Provisional fair value recognised on acquisition	
Amount settled in cash	15,514
Fair value of contingent consideration	3,879
Total	19,393
Recognised amounts of identifiable assets	
Assets	
Property, plant and equipment	2,320
Trade and other receivables	51
Deferred tax asset	93
Inventories	582
	3,046
Liabilities	
Provisions	(332)
	(332)
Total identifiable net assets at fair value	2,714
Goodwill arising on acquisition (provisional value)	16,679

No other matters or circumstances have arisen since 30 June 2016 that have significantly affected or may significantly affect:

(a) The Group's operations in future financial years; or

(b) The results of those operations in future financial years; or

(c) The Group's state of affairs in future financial years.

34. Contingent liabilities

(a) Financial guarantees

The Group has issued bank guarantees in favour of third parties to the face value of $ 2,577,099.

In addition, the parent entity has provided guarantees to third parties guaranteeing the debts and the performance of contracts entered into by controlled entities with third parties. No amounts have been recognised in the financial statements in respect of these guarantees based on Directors' assessment of the fair value at 30 June 2016.

(b) ASIC Class Order 98/1418

The Closed Group consists of the entities denoted by (ii) at Note 23.

Pursuant to Class Order 98/1418, the Company and each of the entities of the Closed Group have entered into a Deed of Cross Guarantee on 23 June 2015 or an Assumption Deed on 30 June 2016 such that the Company guarantees to pay any deficiency in the event of a winding up of a controlled entity in the Closed Group and each controlled entity in the Closed Group has also given a similar guarantee in the event of the winding up of the Company.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position of the entities that are members of the Closed Group are as follows:

Statement of Financial Position	**2016**	**2015**
	$'000	**$'000**
CURRENT ASSETS		
Cash and cash equivalents	16,470	3,361
Trade and other receivables	31,521	7,908
Inventories	52	19
Current tax asset	398	-
Total Current Assets	48,441	11,288
NON CURRENT ASSETS		
Property, plant and equipment	4,139	4,265
Trade and other receivables	29,552	29,416
Deferred tax assets	2,803	659
Intangible assets	41,936	41,964
Total Non Current Assets	78,430	76,304
TOTAL ASSETS	126,871	87,592
CURRENT LIABILITIES		
Trade and other payables	1,938	3,126
Provisions	1,280	977
Current tax liability	-	1,181
Other liabilities	1,200	2,176
Total Current Liabilities	4,418	7,460
NON CURRENT LIABILITIES		
Borrowings	27,950	23,868
Deferred tax liabilities	37	47
Provisions	169	357
Other liabilities	1,200	3,439
Total Non Current Liabilities	29,356	27,711
TOTAL LIABILITIES	33,774	35,171
NET ASSETS	**93,097**	**52,421**
Contributed equity	98,046	56,402
Share based payment reserve	271	170
Accumulated losses	(5,220)	(4,151)
TOTAL EQUITY	**93,097**	**52,421**

Consolidated Income Statement	**2016 $'000**	**2015 $'000**
Revenue	28,165	19,428
Other income	1,039	-
	29,204	19,428
Expenses		
Employee benefits expense	(15,042)	(10,544)
Occupancy expenses	(3,954)	(2,388)
Medical consumables and supplies	(852)	(251)
Medical contractors	(709)	(321)
Professional fees	(243)	(373)
Other expenses	(2,512)	(2,007)
Finance costs	(1,110)	(142)
Acquisition, development and integration costs	(5,105)	(1,608)
Depreciation and amortisation expense	(514)	(277)
Profit from continuing operations before income tax	(837)	1,467
Income tax expense	1,045	(1,618)
Profit from continuing operations after income tax	208	(151)
Loss from discontinued operations	-	-
Profit for the year	208	(151)
Total comprehensive income for the year	208	(151)

Equity - retained profits	**2016 $'000**	**2015 $'000**
Retained profits at the beginning of the financial year	(4,151)	(2,682)
Profit after income tax expenses	208	(151)
Dividends Paid	(1,277)	(1,318)
Retained profits at the end of the financial year	(5,220)	(4,151)

DIRECTORS' DECLARATION
30 JUNE 2016

1. In the opinion of the Directors of Pulse Health Limited :

   a. The consolidated financial statements and notes of Pulse Health Limited are in accordance with the Corporations Act 2001, including

      i. Giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

      ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   b. There are reasonable grounds to believe that Pulse Health Limited will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2016.

3. Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

4. At the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group 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 34 to the financial statements.

Signed in accordance with a resolution of the Directors:

SJames

Director

Stuart James

31 August 2016

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Pulse Health Limited

Report on the Financial Report

We have audited the accompanying financial report of Pulse Health Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, 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 about 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 company's preparation of the financial report that gives a true and fair view 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 company'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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pulse Health Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Pulse Health 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*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report from pages 11 to 15 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.

Opinion

In our opinion, the Remuneration Report of Pulse Health Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

Paul Bull
Partner

Sydney, 31 August 2016

The shareholder information set out below was applicable as at 20 September 2016.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders		
	Ordinary shares	Rights	Options
1 - 1,000	202	-	-
1,001 - 5,000	387	-	-
5,001 - 10,000	237	-	-
10,001 - 100,000	590	-	-
100,001 and over	129	3	1
	1545	3	1
Holding less than a marketable parcel	287	-	-

Substantial shareholders
The number of substantial shareholders and their associates are set out below:

	Ordinary shares	
	Number held	% of total shares issued #
Viburnum Funds Pty Ltd	49,256,812	19.21%
Sante Capital Investments	28,042,908	10.91%
IOOF Holdings Limited	24,681,739	9.62%
Commonwealth Bank of Australia	17,200,042	10.45%

 # per most recent Form 604 lodged

Voting rights
The voting rights of ordinary shares set out in the Company's constitution are:

"Subject to any rights or restrictions for the time being attached to any class or class of shares –

a) at meetings of members or classes of members each member who is entitled to vote may vote in person or by proxy or attorney; and
b) on a show of hands every person who is a member has one vote and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held."

Holders of options or rights do not have any voting rights. The terms of the rights and options are disclosed in the Directors' Report, Section Share-Based Remuneration.

Restricted Securities
At 30 June 2016 and 20 September 2016 the Company does not hold any restricted securities. It is noted that the Performance Rights have a vesting condition requiring the relevant employees of the Company or its subsidiaries to remain an employee while the right remain unvested until:

- 31 December 2016 for tranche 3
- 31 December 2017 for tranche 4

Equity security holders
Twenty largest quoted equity security holders
The names of the twenty largest quoted security holders are listed below:

	Shares held	% of total shares issued	Rank
J P MORGAN NOMINEES AUSTRALIA LIMITED	68,725,746	26.09%	1
SANTE CAPITAL INVESTMENTS NOMINEES	28,042,908	11.91%	2
CITICORP NOMINEES PTY LIMITED	23,068,760	9.03%	3
HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	12,898,995	5.03%	4
LUJETA PTY LTD <MARGARET A/C>	9,922,008	3.63%	5
BNP PARIBAS NOMS PTY LTD <DRP>	9,319,149	3.51%	6
NATIONAL NOMINEES LIMITED	8,453,940	2.41%	7
THROVENA PTY LTD	5,327,179	2.07%	8
FINANCE ASSOCIATES PTY LTD <SUPER FUND A/C>	4,700,000	1.83%	9
THROVENA PTY LTD	4,433,114	1.72%	10
GWYNVILL TRADING PTY LTD	4,000,000	1.56%	11
LUJETA PTY LTD <THE MARGARET ACCOUNT>	4,000,000	1.56%	12
MR STUART BRUCE JAMES + MRS GILLIAN DOREEN JAMES <S B JAMES SUPER FUND A/C>	3,906,293	1.52%	13
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,366,959	1.31%	14
MR CRAIG GRAEME CHAPMAN <NAMPAC DISCRETIONARY A/C>	2,500,000	0.97%	15
SMACE PTY LTD <ALMONTE SUPER FUND A/C>	2,211,046	0.86%	16
MR RHETT ANTHONY JOHN MORSON	1,850,000	0.77%	17
DR PHILIP GORDON WILSON EWART	1,658,494	0.66%	18
DR PHILIP GORDON WILSON EWART + MRS KYLIE EWART <EWART SUPER FUND A/C>	1,630,595	0.65%	19
P EWART INVESTMENTS PTY LTD	1,500,000	0.59%	20
Total for Top 20	**201,515,186**	**77.68%**	

COMPANY SECRETARY	Mr David Franks
REGISTERED OFFICE	Suite 4, Level 1 175 Castlereagh Street Sydney, NSW 2000
PRINCIPAL PLACE OF BUSINESS	Suite 4, Level 1 175 Castlereagh Street Sydney, NSW 2000
SHARE REGISTRY	Computershare Investor Services Pty Ltd 452 Johnston Street Abbotsford VIC 3067
INTERNET WEBSITE	www.pulsehealth.net.au

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